

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MAY 4, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NO. 1-32637

GameStop Corp.

(Exact name of registrant as specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

**625 Westport Parkway,
Grapevine, Texas**

(Address of principal executive offices)

20-2733559

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



76051

(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock	GME	NYSE

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of \$.001 par value Class A Common Stock outstanding as of June 4, 2019: 102,268,940

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par value per share)

	May 4, 2019	May 5, 2018	February 2, 2019
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 543.2	\$ 242.1	\$ 1,624.4
Receivables, net	126.0	104.5	134.2
Merchandise inventories, net	1,149.1	1,184.5	1,250.5
Prepaid expenses and other current assets	101.8	133.1	118.6
Assets held for sale	—	663.1	—
Total current assets	1,920.1	2,327.3	3,127.7
Property and equipment, net	313.3	333.5	321.3
Operating lease right-of-use assets	807.0	—	—
Deferred income taxes	147.3	153.6	147.3
Goodwill	363.9	1,342.3	363.9
Other noncurrent assets	81.7	151.7	84.1
Total assets	\$ 3,633.3	\$ 4,308.4	\$ 4,044.3
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 458.4	\$ 547.8	\$ 1,051.9
Accrued and other current liabilities	588.9	646.2	780.0
Current portion of operating lease liabilities	250.0	—	—
Current portion of debt, net	—	—	349.2
Liabilities held for sale	—	35.6	—
Total current liabilities	1,297.3	1,229.6	2,181.1
Deferred income taxes	0.1	5.0	0.1
Long-term debt, net	468.9	818.6	471.6
Operating lease liabilities	552.6	—	—
Other long-term liabilities	22.7	71.7	55.3
Total liabilities	2,341.6	2,124.9	2,708.1
Commitments and contingencies (Note 7)			
Stockholders' equity:			
Class A common stock — \$.001 par value; 300 shares authorized; 102.3, 101.9 and 102.0 shares issued and outstanding	0.1	0.1	0.1
Additional paid-in capital	29.0	25.5	27.7
Accumulated other comprehensive loss	(68.2)	(23.0)	(54.3)
Retained earnings	1,330.8	2,180.9	1,362.7
Total stockholders' equity	1,291.7	2,183.5	1,336.2
Total liabilities and stockholders' equity	\$ 3,633.3	\$ 4,308.4	\$ 4,044.3

See accompanying condensed notes to unaudited consolidated financial statements.

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GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Net sales	\$ 1,547.7	\$ 1,785.8
Cost of sales	1,076.5	1,254.7
Gross profit	471.2	531.1
Selling, general and administrative expenses	430.6	456.1
Depreciation and amortization	23.1	28.5
Operating earnings	17.5	46.5
Interest income	(5.3)	(0.5)
Interest expense	13.0	14.2
Earnings from continuing operations before income tax expense	9.8	32.8
Income tax expense	2.3	12.4
Net income from continuing operations	7.5	20.4
(Loss) income from discontinued operations, net of tax	(0.7)	7.8
Net income	<u>\$ 6.8</u>	<u>\$ 28.2</u>
Dividends per common share	\$ 0.38	\$ 0.38
Basic earnings (loss) per share:		
Continuing operations	\$ 0.07	\$ 0.20
Discontinued operations	(0.01)	0.08
Basic earnings per share	<u>\$ 0.07</u>	<u>\$ 0.28</u>
Diluted earnings (loss) per share:		
Continuing operations	\$ 0.07	\$ 0.20
Discontinued operations	(0.01)	0.08
Diluted earnings per share	<u>\$ 0.07</u>	<u>\$ 0.28</u>
Weighted-average shares outstanding:		
Basic	102.4	101.8
Diluted	102.5	102.0

See accompanying condensed notes to unaudited consolidated financial statements.

GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Net income	\$ 6.8	\$ 28.2
Other comprehensive loss:		
Foreign currency translation adjustment	(13.9)	(35.2)
Total comprehensive loss	<u>\$ (7.1)</u>	<u>\$ (7.0)</u>

See accompanying condensed notes to unaudited consolidated financial statements.

GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions, except for per share data)

	Class A Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at February 2, 2019	102.0	\$ 0.1	\$ 27.7	\$ (54.3)	\$ 1,362.7	\$ 1,336.2
Net income	—	—	—	—	6.8	6.8
Foreign currency translation	—	—	—	(13.9)	—	(13.9)
Dividends declared, \$0.38 per common share	—	—	—	—	(38.7)	(38.7)
Stock-based compensation expense	—	—	1.9	—	—	1.9
Settlement of stock-based awards	0.3	—	(0.6)	—	—	(0.6)
Balance at May 4, 2019	102.3	\$ 0.1	\$ 29.0	\$ (68.2)	\$ 1,330.8	\$ 1,291.7

	Class A Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at February 3, 2018	101.3	\$ 0.1	\$ 22.1	\$ 12.2	\$ 2,180.1	\$ 2,214.5
Adoption of ASU 2014-09	—	—	—	—	11.5	11.5
Net income	—	—	—	—	28.2	28.2
Foreign currency translation	—	—	—	(35.2)	—	(35.2)
Dividends declared, \$0.38 per common share	—	—	—	—	(38.9)	(38.9)
Stock-based compensation expense	—	—	7.6	—	—	7.6
Settlement of stock-based awards	0.6	—	(4.2)	—	—	(4.2)
Balance at May 5, 2018	101.9	\$ 0.1	\$ 25.5	\$ (23.0)	\$ 2,180.9	\$ 2,183.5

See accompanying condensed notes to unaudited consolidated financial statements.

GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Cash flows from operating activities:		
Net income	\$ 6.8	\$ 28.2
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization (including amounts in cost of sales)	23.3	34.4
Provision for inventory reserves	16.3	16.6
Stock-based compensation expense	1.9	7.6
Loss on disposal of property and equipment	0.7	0.4
Other	(3.6)	(1.7)
Changes in operating assets and liabilities:		
Receivables, net	6.9	24.3
Merchandise inventories	73.1	27.7
Prepaid expenses and other current assets	3.8	(0.8)
Prepaid income taxes and income taxes payable	(1.0)	12.2
Accounts payable and accrued liabilities	(782.2)	(678.2)
Operating lease right-of-use assets and lease liabilities	(11.0)	—
Changes in other long-term liabilities	—	(2.6)
Net cash flows used in operating activities	(665.0)	(531.9)
Cash flows from investing activities:		
Purchase of property and equipment	(18.6)	(17.6)
Other	(0.1)	1.2
Net cash flows used in investing activities	(18.7)	(16.4)
Cash flows from financing activities:		
Repayment of acquisition-related debt	—	(12.2)
Dividends paid	(40.3)	(40.9)
Repayments of debt	(353.1)	—
Settlement of stock-based awards	(0.6)	(4.2)
Net cash flows used in financing activities	(394.0)	(57.3)
Exchange rate effect on cash and cash equivalents and restricted cash	(6.4)	(12.2)
Decrease in cash held for sale	—	5.1
Decrease in cash and cash equivalents and restricted cash	(1,084.1)	(612.7)
Cash and cash equivalents and restricted cash at beginning of period	1,640.5	869.1
Cash and cash equivalents and restricted cash at end of period	\$ 556.4	\$ 256.4

See accompanying condensed notes to unaudited consolidated financial statements.

**GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. General Information

The Company

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") is a global, multichannel video game and consumer electronics retailer. GameStop operates over 5,700 stores across 14 countries. Our consumer product network also includes www.gamestop.com; Game Informer® magazine, the world's leading print and digital video game publication; and ThinkGeek, www.thinkgeek.com, the premier retailer for the global geek community featuring exclusive and unique video game and pop culture products.

We operate our business in four geographic segments: United States, Canada, Australia and Europe. Our former Technology Brands segment had been comprised of Spring Mobile, Simply Mac and Cricket Wireless branded stores ("Cricket Wireless"). Cricket Wireless was sold in January 2018, and Spring Mobile was sold in January 2019. Simply Mac is reported in the United States segment in these consolidated financial statements and accompanying condensed notes. The historical results of Spring Mobile are reported as discontinued operations in our consolidated statements of operations for all periods presented. See Note 2, "Discontinued Operations and Dispositions," for further information. The consolidated statement of cash flows is presented on a combined basis for all periods presented and, therefore, does not segregate cash flows from continuing and discontinued operations. The information contained in these condensed notes to our consolidated financial statements refers to continuing operations unless otherwise noted.

On May 9, 2019, we entered into a definitive agreement to sell our Simply Mac business to Cool Holdings, Inc. See Note 2, "Discontinued Operations and Dispositions," for further information.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in our opinion, necessary for a fair presentation of the information as of and for the periods presented. These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required under GAAP for complete consolidated financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with our annual report on Form 10-K for the 52 weeks ended February 2, 2019, as filed with the Securities and Exchange Commission on April 2, 2019, (the "2018 Annual Report on Form 10-K"). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by us could have a significant impact on our financial results. Actual results could differ from those estimates. Due to the seasonal nature of our business, the results of operations for the 13 weeks ended May 4, 2019 are not indicative of the results to be expected for the 52 weeks ending February 1, 2020 ("fiscal 2019").

Significant Accounting Policies

Except for the accounting policy for leases, which is discussed below within "—Adoption of New Accounting Pronouncements" and within Note 5, "Leases," there have been no material changes to our significant accounting policies as noted in Note 1, "Nature of Operations and Summary of Significant Accounting Policies," within our 2018 Annual Report on Form 10-K.

Restricted Cash

Restricted cash of \$13.2 million, \$14.3 million and \$16.1 million as of May 4, 2019, May 5, 2018 and February 2, 2019, respectively, consists primarily of bank deposits serving as collateral for bank guarantees issued on behalf of our foreign subsidiaries and is included in other noncurrent assets in our unaudited condensed consolidated balance sheets.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a reconciliation of cash and cash equivalents in the condensed consolidated balance sheets to total cash and cash equivalents and restricted cash in the condensed consolidated statements of cash flows (in millions):

	May 4, 2019	May 5, 2018	February 2, 2019
Cash and cash equivalents	\$ 543.2	\$ 242.1	\$ 1,624.4
Restricted cash (included in prepaid expenses and other current assets)	—	2.8	2.7
Restricted cash (included in other noncurrent assets)	13.2	11.5	13.4
Total cash and cash equivalents and restricted cash in the statements of cash flows	<u>\$ 556.4</u>	<u>\$ 256.4</u>	<u>\$ 1,640.5</u>

Property and Equipment, Net

Accumulated depreciation related to our property and equipment totaled \$1,247.9 million, \$1,237.1 million and \$1,235.8 million as of May 4, 2019, May 5, 2018 and February 2, 2019, respectively.

Adoption of New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") 2016-02, *Leases*, which requires a lessee to recognize a liability related to lease payments and a corresponding right-of-use asset representing a right to use the underlying asset for the lease term. Entities are required to use a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements, with certain reliefs available. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides clarifications and improvements to ASU 2016-02 including allowing entities to elect an additional transition method with which to adopt ASU 2016-02. The approved transition method enables entities to apply the transition requirements in this ASU at the effective date of ASU 2016-02 (rather than at the beginning of the earliest comparative period presented) with the effect of initially applying ASU 2016-02 recognized as a cumulative-effect adjustment to retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, *Leases (Topic 840)* ("ASC 840"), including the disclosure requirements of ASC 840. In March 2019, the FASB issued ASU 2019-01, *Leases* which clarifies the disclosure requirements for interim periods.

We adopted the new lease standard, Accounting Standards Codification Topic 842, *Leases* ("ASC 842"), effective February 3, 2019, using the modified-retrospective transition approach as outlined in ASU 2018-11, with no restatement of comparative periods. As permitted by the standard, we elected certain practical expedients, including the "package of practical expedients," under which we did not reassess our prior conclusions regarding lease identification, lease classification, or capitalization of initial lease direct costs for existing or expired contracts. For our real estate leases, we elected the practical expedient to not separate lease and non-lease components. For our non-real estate leases, we elected to separate lease and non-lease components. We did not elect to exclude short-term leases from our right-of-use asset and liability balances, nor did we elect the hindsight practical expedient.

Under the modified-retrospective transition approach, we have recorded adjustments to our fiscal 2019 opening balance sheet (as of February 3, 2019) to recognize an initial operating lease right-of-use asset and corresponding initial lease liability of approximately \$850 million. See Note 5, "Leases" for further details.

2. Discontinued Operations and Dispositions**Discontinued Operations**

On January 16, 2019, we completed the sale of all of the equity interest in our wholly-owned subsidiary Spring Communications Holding, Inc. ("Spring Mobile") to Prime Acquisition Company, LLC, a wholly-owned subsidiary of Prime Communications, L.P., pursuant to an Equity Purchase Agreement dated as of November 21, 2018. The net cash proceeds received from the sale totaled \$727.9 million, which is subject to customary post-closing adjustments. The net proceeds received consisted of the purchase price of \$700.0 million less \$10.5 million of transaction costs, plus preliminary adjustments totaling \$38.4 million for working capital and indebtedness. We recognized a gain on sale of \$100.8 million (\$65.4 million, net of tax) during the fourth quarter of fiscal 2018. Except for customary post-closing adjustments and transition services, we have no contingencies or continuing involvement with Spring Mobile subsequent to the completion of the sale.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The historical results of Spring Mobile are reported as discontinued operations in our consolidated statements of operations for all periods presented. The results of our discontinued operations for 13 weeks ended May 4, 2019, and May 5, 2018 are as follows (in millions):

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Net sales	\$ —	\$ 148.2
Cost of sales	—	22.0
Gross profit	—	126.2
Selling, general and administrative expenses	0.8	110.0
Depreciation and amortization	—	5.6
(Loss) income from discontinued operations before income taxes	(0.8)	10.6
Income tax (benefit) expense	(0.1)	2.8
Net (loss) income from discontinued operations	\$ (0.7)	\$ 7.8

The major classes of assets and liabilities held for sale associated with Spring Mobile are as follows (in millions):

	May 5, 2018
Assets:	
Cash and cash equivalents	\$ 5.0
Receivables, net	51.9
Merchandise inventories, net	121.6
Prepaid expenses and other current assets	8.8
Property and equipment, net	78.6
Goodwill	316.9
Other intangible assets, net	77.0
Other assets	3.3
Total assets held for sale	\$ 663.1
Liabilities:	
Accounts payable	\$ 3.6
Accrued liabilities	17.1
Other liabilities	14.9
Total liabilities held for sale	\$ 35.6

There were no significant operating noncash items for our discontinued operations for the 13 weeks ended May 4, 2019. The following table presents capital expenditures, depreciation and amortization and other significant operating noncash items of our discontinued operations for the 13 weeks ended May 5, 2018 (in millions):

	13 Weeks Ended	
	May 5, 2018	
Capital expenditures	\$	2.9
Depreciation and amortization		5.6
Provision for inventory reserves		4.2

Disposition of Simply Mac

On May 9, 2019, we entered into a definitive agreement to sell our Simply Mac business to Cool Holdings, Inc. for consideration of \$8.0 million in cash at closing, subject to customary post-closing adjustments, and a promissory note in an amount dependent in part on the net value of inventory held by Simply Mac at closing. The transaction is expected to close during the third quarter of fiscal 2019.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. Revenue

Net sales by significant product category for the periods indicated is as follows (in millions):

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
New video game hardware ⁽¹⁾	\$ 233.5	\$ 359.2
New video game software	446.4	466.7
Pre-owned and value video game products	395.3	495.7
Video game accessories	200.2	199.1
Digital	38.1	43.0
Collectibles	157.3	142.4
Other ⁽²⁾	76.9	79.7
Total	\$ 1,547.7	\$ 1,785.8

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

(2) Includes mobile and consumer electronics sold through our Simply Mac branded stores. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our Video Game Brands segments, and revenues from PowerUp Pro loyalty members receiving *Game Informer* magazine in print form.

See Note 9, "Segment Information," for net sales by geographic location.

Performance Obligations

We expect to recognize revenue in future periods for remaining performance obligations we have associated with unredeemed gift cards, trade-in credits, reservation deposits and our PowerUp Rewards loyalty program (collectively, "unredeemed customer liabilities"), extended warranties and subscriptions to our *Game Informer* magazine.

Performance obligations associated with unredeemed customer liabilities are primarily satisfied at the time our customers redeem their gift cards, trade-in credits, reservation deposits or loyalty program points for products that we offer. Unredeemed customer liabilities are generally redeemed within one year of issuance. As of May 4, 2019, our unredeemed customer liabilities totaled \$237.4 million.

We offer extended warranties on certain new and pre-owned video game products with terms generally ranging from 12 to 24 months, depending on the product. Revenues for extended warranties sold are recognized on a straight-line basis over the life of the contract. As of May 4, 2019, our deferred revenue liability related to extended warranties totaled \$68.9 million.

Performance obligations associated with subscriptions to our *Game Informer* magazine are satisfied when monthly magazines are delivered in print form or when made available in digital format. The significant majority of our customers' subscriptions is for 12 monthly issues. As of May 4, 2019, we had deferred revenue of \$43.9 million associated with our *Game Informer* magazine.

Contract Balances

Our contract liabilities primarily consist of unredeemed customer liabilities and deferred revenues associated with extended warranties and subscriptions to our *Game Informer* magazine. The opening balance, current period changes and ending balance of our contract liabilities are as follows (in millions):

	Contract Liabilities
Balance at February 2, 2019	\$ 376.9
Increase to contract liabilities ⁽¹⁾	215.2
Decrease to contract liabilities ⁽²⁾	(239.9)
Other adjustments ⁽³⁾	(2.0)
Balance at May 4, 2019	\$ 350.2

(1) Includes issuances of gift cards, trade-in credits and loyalty points, new reservation deposits, new subscriptions to *Game Informer* and extended warranties sold.

(2) Includes redemptions of gift cards, trade-in credits, loyalty points and reservation deposits as well as revenues recognized for *Game Informer* and extended warranties. During the 13 weeks ended May 4, 2019, there were \$28.3 million of gift cards redeemed that were outstanding as of February 2, 2019.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(3) Primarily includes foreign currency translation adjustments.

4. Fair Value Measurements and Financial Instruments

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Applicable accounting standards require disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting our assumptions about pricing by market participants.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis include our foreign currency contracts, life insurance policies we own that have a cash surrender value, and certain nonqualified deferred compensation liabilities.

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

Our assets and liabilities measured at fair value on a recurring basis as of May 4, 2019, May 5, 2018 and February 2, 2019, utilize Level 2 inputs and include the following (in millions):

	May 4, 2019	May 5, 2018	February 2, 2019
Assets			
Foreign currency contracts ⁽¹⁾	\$ 3.5	\$ 7.7	\$ 1.0
Company-owned life insurance ⁽²⁾	15.1	14.6	14.6
Total assets	<u>\$ 18.6</u>	<u>\$ 22.3</u>	<u>\$ 15.6</u>
Liabilities			
Foreign currency contracts ⁽³⁾	\$ 2.0	\$ 3.2	\$ 1.2
Nonqualified deferred compensation ⁽³⁾	1.2	1.1	1.1
Total liabilities	<u>\$ 3.2</u>	<u>\$ 4.3</u>	<u>\$ 2.3</u>

(1) Recognized in prepaid expenses and other current assets in our unaudited condensed consolidated balance sheets.

(2) Recognized in other non-current assets in our unaudited condensed consolidated balance sheets.

(3) Recognized in accrued liabilities in our unaudited condensed consolidated balance sheets.

We use forward exchange contracts, foreign currency options and cross-currency swaps (together, the "foreign currency contracts") to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. The foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. The total gross notional value of derivatives related to our foreign currency contracts was \$259.7 million, \$342.2 million and \$240.0 million as of May 4, 2019, May 5, 2018 and February 2, 2019, respectively.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Activity related to the trading of derivative instruments and the offsetting impact of related intercompany and foreign currency assets and liabilities recognized in selling, general and administrative expense is as follows (in millions):

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Gains (losses) on the change in fair value of derivative instruments	\$ 2.4	\$ 4.7
(Losses) gains on the re-measurement of related intercompany loans and foreign currency assets and liabilities	(2.4)	(3.0)
Net gains	\$ —	\$ 1.7

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

Assets that are Measured at Fair Value on a Nonrecurring Basis

Assets that are measured at fair value on a nonrecurring basis relate primarily to property and equipment, right-of-use assets and intangible assets, which are remeasured when the estimated fair value is below its carrying value. For these assets, we do not periodically adjust carrying value to fair value; rather, when we determine that impairment has occurred, the carrying value of the asset is reduced to its fair value. We did not record any impairment charges related to assets measured at fair value on a nonrecurring basis during the 13 weeks ended May 4, 2019 or May 5, 2018.

Other Fair Value Disclosures

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

As of May 4, 2019 our unsecured 6.75% senior notes due in 2021 had a net carrying value of \$468.9 million and a fair value of \$476.6 million. The fair values of our senior notes were determined based on quoted market prices obtained through an external pricing source which derives its price valuations from daily marketplace transactions, with adjustments to reflect the spreads of benchmark bonds, credit risk and certain other variables. We have determined this to be a Level 2 measurement as all significant inputs into the quote provided by our pricing source are observable in active markets.

5. Leases

We conduct the substantial majority of our business with leased real estate properties, including retail stores, warehouse facilities and office space. We also lease certain equipment and vehicles. These are generally leased under noncancelable agreements and include various renewal options for additional periods. These agreements generally provide for minimum, and in some cases, percentage rentals, and require us to pay insurance, taxes and other maintenance costs. Percentage rentals are based on sales performance in excess of specified minimums at various stores and are accounted for in the period in which the amount of percentage rentals can be accurately estimated. All of our lease agreements are classified as operating leases.

Effective February 3, 2019, we adopted ASC 842, Leases (see Note 1, "General Information"). Under ASC 842, fixed payments associated with our operating leases are included in operating lease right-of-use ("ROU") assets and both current and noncurrent operating lease liabilities on the balance sheet. We determine if an arrangement is considered a lease at inception. We recognize ROU assets, on the commencement date based on the present value of future minimum lease payments over the lease term, including reasonably certain renewal options. As the rate implicit in the lease is not readily determinable for most leases, we utilize our incremental borrowing rate ("IBR") to determine the present value of future payments. The incremental borrowing rate represents a significant judgment that is based on an analysis of our credit rating, country risk, corporate bond yields, the effect of collateralization, as well as comparison to our borrowing rates. For our real estate leases, we do not separate the components of a contract, thus our future payments include minimum rent payments and fixed executory costs. For our non-real estate leases, future payments include only fixed minimum rent payments. We record the amortization of our ROU assets and the accretion of our lease liabilities as a single lease cost on a straight-line basis over the lease term, which includes option terms we are reasonably certain to exercise. We recognize our cash or lease incentives as a reduction to the ROU asset. We assess ROU assets for impairment in accordance with our long-lived asset impairment policy, which is performed periodically or when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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Prior to our adoption of ASC 842, liabilities for future rental payments for operating leases were not recognized on the balance sheet. Leases with step rent provisions, escalation clauses or other lease concessions were accounted for on a straight-line basis over the lease term, which included renewal option periods when we were reasonably assured of exercising the renewal options and included "rent holidays" (periods in which we were not obligated to pay rent). Cash or lease incentives received upon entering into certain store leases ("tenant improvement allowances") were also recognized on a straight-line basis as a reduction to rent expense over the lease term. We recorded the unamortized portion of tenant improvement allowances as a part of deferred rent.

Rent expense under operating leases was as follows (in millions):

	13 Weeks Ended	
	May 4, 2019	
Operating lease cost	\$	86.2
Variable lease cost ⁽¹⁾		24.3
Total rent expense	\$	110.5

(1) Variable lease cost includes percentage rentals and variable executory costs.

During the 13 weeks ended May 4, 2019, we had cash outflows of \$84.3 million associated with operating leases included in the measurement of our lease liabilities and we recognized \$38.6 million of ROU assets that were obtained in exchange for operating lease obligations.

The weighted-average remaining lease term, which includes reasonably certain renewal options, and the weighted-average discount rate for operating leases included in the measurement of our lease liabilities, as of May 4, 2019, were as follows:

	May 4, 2019
Weighted-average remaining lease term (years)	4.6 ⁽¹⁾
Weighted-average discount rate	4.6%

(1) The weighted-average remaining lease term is weighted based on the lease liability balance for each lease as of May 4, 2019. This weighted average calculation differs from our simple average remaining lease term due to the inclusion of reasonably certain renewal options and the effect of the lease liability value of longer term leases.

Expected lease payments associated with our operating lease liabilities, excluding percentage rentals, as of May 4, 2019, are as follows (in millions):

Period	Operating Leases ⁽¹⁾	
Remainder of Fiscal Year 2019, as of May 4, 2019	\$	224.5
Fiscal Year 2020		218.5
Fiscal Year 2021		153.5
Fiscal Year 2022		107.6
Fiscal Year 2023		73.5
Thereafter		118.9
Total remaining lease payments		896.5
Less: Interest		(93.9)
Present value of lease liabilities	\$	802.6

(1) Operating lease payments exclude legally binding lease payments for leases signed but not yet commenced.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, ASC 840, future minimum annual rentals, including reasonably assured options, as of February 2, 2019, were as follows (in millions):

Period		
Fiscal Year 2019	\$	296.2
Fiscal Year 2020		208.7
Fiscal Year 2021		149.1
Fiscal Year 2022		105.4
Fiscal Year 2023		71.4
Thereafter		116.2
	<u>\$</u>	<u>947.0</u>

6. Debt

Senior Notes

The carrying value of our long-term debt, net is comprised as follows (in millions):

	May 4, 2019	May 5, 2018	February 2, 2019
2019 Senior Notes principal amount	\$ —	\$ 350.0	\$ 350.0
2021 Senior Notes principal amount	471.9	475.0	475.0
Less: Unamortized debt financing costs	(3.0)	(6.4)	(4.2)
	<u>\$ 468.9</u>	<u>\$ 818.6</u>	<u>\$ 820.8</u>
Less: Current portion	—	—	(349.2)
Long-term debt, net	<u>\$ 468.9</u>	<u>\$ 818.6</u>	<u>\$ 471.6</u>

2019 Senior Notes. In September 2014, we issued \$350.0 million aggregate principal amount of unsecured 5.50% senior notes due October 1, 2019 (the "2019 Senior Notes"), with interest payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2015. We incurred fees and expenses related to the 2019 Senior Notes offering of \$6.3 million. On April 4, 2019, we redeemed all of our \$350.0 million unsecured senior notes due October 2019, plus accrued but unpaid interest, at the redemption price equal to 100% of par value. We used cash on hand for the redemption of the 2019 Senior Notes.

2021 Senior Notes. In March 2016, we issued \$475.0 million aggregate principal amount of unsecured 6.75% senior notes due March 15, 2021 (the "2021 Senior Notes"). The 2021 Senior Notes bear interest at the rate of 6.75% per annum with interest payable semi-annually in arrears on March 15 and September 15 of each year beginning on September 15, 2016. The net proceeds from the offering were used for general corporate purposes, including acquisitions and dividends. We incurred fees and expenses related to the 2021 Senior Notes offering of \$8.1 million, which were capitalized during the first quarter of fiscal 2016 and are being amortized as interest expense over the term of the notes. The 2021 Senior Notes were sold in a private placement and are not registered under the Securities Act. The 2021 Senior Notes were offered in the United States to "qualified institutional buyers" pursuant to the exemption from registration under Rule 144A of the Securities Act and in exempted offshore transactions pursuant to Regulation S under the Securities Act.

In the first quarter of fiscal 2019, we executed a series of open market purchases of our 2021 Senior Notes resulting in \$3.1 million in aggregate principal amount being repurchased at prices ranging from 99.6% to 101.0% of par value. From May 5, 2019 through June 4, 2019, we executed an additional series of open market purchases of our 2021 Senior Notes, in which we repurchased an aggregate principal amount of \$35.6 million at prices ranging from 100.9% to 101.5% of par value.

The indenture governing the 2021 Senior Notes does not contain financial covenants but does contain covenants which place certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, stock repurchases, the incurrence of additional debt and the repurchase of debt that is junior to the 2021 Senior Notes. In addition, the indenture restricts payments of dividends to stockholders (other than dividends payable in shares of capital stock) if one of the following conditions exist: (i) an event of default has occurred, (ii) we could not incur additional debt under the general debt covenant of the indentures or (iii) the sum of the proposed dividend and all other dividends and other restricted payments made under the indenture from the date of the indenture governing the 2021 Senior Notes exceeds the sum of 50% of consolidated net income plus 100% of net proceeds from capital stock sales and other amounts set forth in and determined as provided in the indenture. These restrictions are subject to exceptions and qualifications, including that we can pay up to \$175 million in dividends to stockholders in each fiscal year and we can pay dividends and make other restricted payments in an unlimited amount if our leverage ratio on a pro forma basis after giving effect to the dividend payment and other restricted payments would be less than or equal to 1.0:1.0.

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The indenture contains customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the 2021 Senior Notes, plus accrued and unpaid interest, if any, may be declared immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

Revolving Credit Facility

We maintain an asset-based revolving credit facility (the "Revolver") with a borrowing base capacity of \$420 million and a maturity date of November 2022. The Revolver maintains the \$200 million expansion feature and \$50 million letter of credit sublimit, and allows for an incremental \$50 million first-in, last-out facility. The applicable margins for prime rate loans range from 0.25% to 0.50% and, for the London Interbank Offered ("LIBO") rate loans, range from 1.25% to 1.50%. The Revolver is secured by substantially all of the assets of GameStop Corp. and the assets of its domestic subsidiaries.

Borrowing availability under the Revolver is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, plus 90% of eligible credit card receivables, net of certain reserves. The borrowing base provides for borrowing of up to 92.5% of the appraisal value during the period between July 15 and October 15 of each year. Letters of credit reduce the amount available to borrow under the Revolver by an amount equal to the face value of the letters of credit. Our ability to pay cash dividends, redeem options and repurchase shares is generally permitted, except under certain circumstances, including if either (1) excess availability under the Revolver is less than 20%, or is projected to be within six months after such payment or (2) excess availability under the Revolver is less than 15%, or is projected to be within six months after such payment, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months, is 1.0:1.0 or less. In the event that excess availability under the Revolver is at any time less than the greater of (1) \$30 million or (2) 10% of the lesser of the total commitment or the borrowing base, we will be subject to a fixed charge coverage ratio covenant of 1.0:1.0.

The Revolver places certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, loans, guarantees, acquisitions and the incurrence of additional indebtedness. Absent consent from our lenders, we may not incur more than \$1 billion of senior secured debt and \$750 million of additional unsecured indebtedness to be limited to \$250 million in general unsecured obligations and \$500 million in unsecured obligations to finance acquisitions valued at \$500 million or more.

The per annum interest rate under the Revolver is variable and is calculated by applying a margin (1) for prime rate loans of 0.25% to 0.50% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% and (c) the LIBO rate for a one month interest period as determined on such day plus 1.00%, and (2) for LIBO rate loans of 1.25% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of our average daily excess availability under the facility. In addition, we are required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Revolver. As of May 4, 2019, the applicable margin was 0.25% for prime rate loans and 1.25% for LIBO rate loans.

The Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 13 weeks ended May 4, 2019, we had no borrowings or repayments under our revolving credit facility. As of May 4, 2019, total availability under the Revolver was \$337.4 million, with no outstanding borrowings and outstanding standby letters of credit of \$7.2 million. We are currently in compliance with the financial requirements of the Revolver.

Luxembourg Line of Credit

In September 2007, our Luxembourg subsidiary entered into a discretionary \$20.0 million Uncommitted Line of Credit (the "Line of Credit") with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of May 4, 2019, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$9.3 million.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. Commitments and Contingencies**Commitments**

During the 13 weeks ended May 4, 2019, there were no material changes to our commitments as disclosed in our 2018 Annual Report on Form 10-K.

Contingencies**Legal Proceedings**

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

8. Earnings Per Share

Basic net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options and unvested restricted stock outstanding during the period, using the treasury stock method. Potentially dilutive securities are excluded from the computations of diluted earnings per share if their effect would be antidilutive. A reconciliation of shares used in calculating basic and diluted net income (loss) per common share is as follows (in millions, except per share data):

	13 Weeks Ended	
	May 4, 2019	May 5, 2018
Net income from continuing operations	\$ 7.5	\$ 20.4
(Loss) income from discontinued operations, net of tax	(0.7)	7.8
Net income	<u>\$ 6.8</u>	<u>\$ 28.2</u>
Weighted-average common shares outstanding	102.4	101.8
Dilutive effect of stock options and restricted stock awards	0.1	0.2
Weighted-average diluted common shares outstanding	<u>102.5</u>	<u>102.0</u>
Basic earnings (loss) per share: ⁽¹⁾		
Continuing operations	\$ 0.07	\$ 0.20
Discontinued operations	(0.01)	0.08
Basic earnings per share	<u>\$ 0.07</u>	<u>\$ 0.28</u>
Diluted earnings (loss) per share: ⁽¹⁾		
Continuing operations	\$ 0.07	\$ 0.20
Discontinued operations	(0.01)	0.08
Diluted earnings per share	<u>\$ 0.07</u>	<u>\$ 0.28</u>
Anti-dilutive stock options and restricted stock awards	0.8	1.6

(1) The components of basic and diluted earnings per share may not sum to the total earnings per share due to rounding.

GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

9. Segment Information

We operate our business in four geographic segments: United States, Canada, Australia and Europe. Our former Technology Brands segment had been comprised of Spring Mobile, Simply Mac and Cricket Wireless branded stores ("Cricket Wireless"). Cricket Wireless was sold in January 2018, and Spring Mobile was sold in January 2019. Simply Mac is reported in the United States segment in these consolidated financial statements and accompanying notes. The historical results of Spring Mobile are reported as discontinued operations and are excluded from our segment results for all periods presented.

We identify segments based on a combination of geographic areas and management responsibility. Each of the segments includes significant retail operations with all video game brands stores engaged in the sale of new and pre-owned video game hardware, software, accessories and collectibles. Our segments also include stand-alone collectibles stores. Segment results for the United States include retail operations in 50 states, the District of Columbia and Guam; our e-commerce websites www.gamestop.com and www.thinkgeek.com; *Game Informer* magazine; and Simply Mac. The United States segment also includes general and administrative expenses related to our corporate headquarters in Grapevine, Texas. Segment results for Canada include retail and e-commerce operations in Canada and segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Segment results for Europe include retail and e-commerce operations in 10 European countries. We measure segment profit using operating earnings, which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. Transactions between reportable segments consist primarily of royalties, management fees, intersegment loans and related interest. There were no material intersegment sales during the 13 weeks ended May 4, 2019 and May 5, 2018.

Segment information for the 13 weeks ended May 4, 2019 and May 5, 2018 is as follows (in millions):

	United States	Canada	Australia	Europe	Consolidated
13 weeks ended May 4, 2019:					
Net sales	\$ 1,143.2	\$ 72.6	\$ 101.6	\$ 230.3	\$ 1,547.7
Operating earnings (loss)	52.2	(5.3)	(8.2)	(21.2)	17.5
13 weeks ended May 5, 2018:					
Net sales	\$ 1,293.2	\$ 81.9	\$ 122.1	\$ 288.6	\$ 1,785.8
Operating earnings (loss)	67.3	(0.3)	(7.6)	(12.9)	46.5

10. Subsequent Events

On June 11, 2019, we commenced a modified Dutch tender offer for up to 12,000,000 shares of our Class A common stock that will expire on July 10, 2019, unless extended.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information contained in our unaudited condensed consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. See our Annual Report on Form 10-K, for the fiscal year ended February 2, 2019 filed with the Securities and Exchange Commission on April 2, 2019 (the "2018 Annual Report on Form 10-K"), including the factors disclosed under "Item 1A. Risk Factors," as well as "Disclosure Regarding Forward-looking Statements" and "Item 1A. Risk Factors" below, for certain factors that may cause actual results to vary materially from these forward-looking statements.

OVERVIEW

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") is a global, multichannel video game and consumer electronics retailer. We operate over 5,700 stores across 14 countries. Our consumer product network also includes www.gamestop.com; Game Informer® magazine, the world's leading print and digital video game publication; and ThinkGeek, www.thinkgeek.com, the premier retailer for the global geek community featuring exclusive and unique video game and pop culture products.

We operate our business in four geographic segments: United States, Canada, Australia and Europe. Our former Technology Brands segment had been comprised of Spring Mobile, Simply Mac and Cricket Wireless branded stores ("Cricket Wireless"). Cricket Wireless was sold in January 2018, and Spring Mobile was sold in January 2019. In this Quarterly Report, for all periods presented, Simply Mac is reported in the United States segment and the historical results of Spring Mobile are reported as discontinued operations. The discussion and analysis of our results of operations refers to continuing operations unless otherwise noted. On May 9, 2019, we entered into a definitive agreement to sell our Simply Mac business to Cool Holdings, Inc. The sale is expected to close during the third quarter of fiscal 2019.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. The fiscal years ending February 1, 2020 ("fiscal 2019") and February 2, 2019 ("fiscal 2018") each consist of 52 weeks. Our business, like that of many retailers, is seasonal, with the major portion of the net sales realized during the fourth fiscal quarter, which includes the holiday selling season.

Growth in the video game industry is generally driven by the introduction of new technology. Gaming consoles are typically launched in cycles as technological developments provide significant improvements in graphics, audio quality, game play, internet connectivity and other entertainment capabilities beyond video gaming. The current generation of consoles include the Sony PlayStation 4 (2013), Microsoft Xbox One (2013) and the Nintendo Switch (March 2017). In 2016, Sony and Microsoft released refreshes to the PlayStation 4 and Xbox One, respectively, and Sony also released the PlayStation VR. In November 2017, Microsoft released a further enhanced version of its current generation console, the Xbox One X.

The sale of video games delivered through digital channels and other forms of gaming continue to grow and take an increasing percentage of physical video game sales. We currently sell various types of products that relate to the digital category, including digitally downloadable content ("DLC"), full game downloads, Xbox LIVE, PlayStation Plus and Nintendo network points cards, as well as prepaid digital and prepaid subscription cards. We have made significant investments in e-commerce and in-store and website functionality to enable our customers to access digital content easily and facilitate the digital sales and delivery process. We plan to continue to invest in these types of processes and channels to grow our digital sales base and enhance our market leadership position in the video game industry and in the digital aggregation and distribution category.

In our discussion of the results of operations, we refer to comparable store sales, which is a measure commonly used in the retail industry and indicates store performance by measuring the growth or decline in sales for certain stores for a particular period over the corresponding period in the prior year. Our comparable store sales are comprised of sales from our video game brands stores, including stand-alone collectible stores, operating for at least 12 full months as well as sales related to our websites and sales we earn from sales of pre-owned merchandise to wholesalers or dealers. Comparable store sales for our international operating segments exclude the effect of changes in foreign currency exchange rates. The calculation of comparable store sales for the 13 weeks ended May 4, 2019 compares those periods to the most closely comparable weeks for the prior year period. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods. We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer that provides its consumers several ways to access its products.

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CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth certain statement of operations items (in millions) and as a percentage of net sales, for the periods indicated:

	13 Weeks Ended			
	May 4, 2019		May 5, 2018	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Net sales	\$ 1,547.7	100.0 %	\$ 1,785.8	100.0%
Cost of sales	1,076.5	69.6	1,254.7	70.3
Gross profit	471.2	30.4	531.1	29.7
Selling, general and administrative expenses	430.6	27.8	456.1	25.5
Depreciation and amortization	23.1	1.5	28.5	1.6
Operating earnings	17.5	1.1	46.5	2.6
Interest expense, net	7.7	0.5	13.7	0.8
Earnings from continuing operations before income tax expense	9.8	0.6	32.8	1.8
Income tax expense	2.3	0.1	12.4	0.7
Net income from continuing operations	7.5	0.5	20.4	1.1
(Loss) income from discontinued operations, net of tax	(0.7)	(0.1)	7.8	0.5
Net income	\$ 6.8	0.4 %	\$ 28.2	1.6%

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

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

	13 Weeks Ended			
	May 4, 2019		May 5, 2018	
	Net Sales	Percent of Total	Net Sales	Percent of Total
New video game hardware ⁽¹⁾	\$ 233.5	15.1%	\$ 359.2	20.1%
New video game software	446.4	28.8	466.7	26.1
Pre-owned and value video game products	395.3	25.5	495.7	27.8
Video game accessories	200.2	12.9	199.1	11.1
Digital	38.1	2.5	43.0	2.4
Collectibles	157.3	10.2	142.4	8.0
Other ⁽²⁾	76.9	5.0	79.7	4.5
Total	\$ 1,547.7	100.0%	\$ 1,785.8	100.0%

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	13 Weeks Ended			
	May 4, 2019		May 5, 2018	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
New video game hardware ⁽¹⁾	\$ 22.5	9.6%	\$ 35.2	9.8%
New video game software	94.4	21.1	98.8	21.2
Pre-owned and value video game products	173.9	44.0	220.6	44.5
Video game accessories	72.5	36.2	67.5	33.9
Digital	34.8	91.3	38.2	88.8
Collectibles	51.4	32.7	45.8	32.2
Other ⁽²⁾	21.7	28.2	25.0	31.4
Total	\$ 471.2	30.4%	\$ 531.1	29.7%

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

(2) Includes mobile and consumer electronics sold through our Simply Mac branded stores. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving *Game Informer* magazine in print form.

13 weeks ended May 4, 2019 compared with the 13 weeks ended May 5, 2018

	13 Weeks Ended		Change	
	May 4, 2019	May 5, 2018	\$	%
	(\$ in millions)			
Net sales	\$ 1,547.7	\$ 1,785.8	\$ (238.1)	(13.3)%
Cost of sales	1,076.5	1,254.7	(178.2)	(14.2)
Gross profit	471.2	531.1	(59.9)	(11.3)
Selling, general and administrative expenses	430.6	456.1	(25.5)	(5.6)
Depreciation and amortization	23.1	28.5	(5.4)	(18.9)
Operating earnings	17.5	46.5	(29.0)	(62.4)
Interest expense, net	7.7	13.7	(6.0)	(43.8)
Earnings from continuing operations before income tax expense	9.8	32.8	(23.0)	(70.1)
Income tax expense	2.3	12.4	(10.1)	(81.5)
Net income from continuing operations	7.5	20.4	(12.9)	(63.2)
(Loss) income from discontinued operations, net of tax	(0.7)	7.8	(8.5)	(109.0)
Net income	\$ 6.8	\$ 28.2	\$ (21.4)	(75.9)%

	13 Weeks Ended		Change	
	May 4, 2019	May 5, 2018	\$	%
Net Sales:	(\$ in millions)			
New video game hardware ⁽¹⁾	\$ 233.5	\$ 359.2	\$ (125.7)	(35.0)%
New video game software	446.4	466.7	(20.3)	(4.3)
Pre-owned and value video game products	395.3	495.7	(100.4)	(20.3)
Video game accessories	200.2	199.1	1.1	0.6
Digital	38.1	43.0	(4.9)	(11.4)
Collectibles	157.3	142.4	14.9	10.5
Other ⁽²⁾	76.9	79.7	(2.8)	(3.5)
Total	\$ 1,547.7	\$ 1,785.8	\$ (238.1)	(13.3)%

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	13 Weeks Ended		Change	
	May 4, 2019	May 5, 2018	\$	%
Gross Profit:	(\$ in millions)			
New video game hardware ⁽¹⁾	\$ 22.5	\$ 35.2	\$ (12.7)	(36.1)%
New video game software	94.4	98.8	(4.4)	(4.5)
Pre-owned and value video game products	173.9	220.6	(46.7)	(21.2)
Video game accessories	72.5	67.5	5.0	7.4
Digital	34.8	38.2	(3.4)	(8.9)
Collectibles	51.4	45.8	5.6	12.2
Other ⁽²⁾	21.7	25.0	(3.3)	(13.2)
Total	\$ 471.2	\$ 531.1	\$ (59.9)	(11.3)%

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

(2) Includes mobile and consumer electronics sold through our Simply Mac branded stores. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving *Game Informer* magazine in print form.

Net Sales

Net sales decreased \$238.1 million, or 13.3%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018. The decrease in net sales was primarily attributable to a decline in comparable store sales of 10.3%, the negative impact of foreign exchange rate fluctuations of \$33.1 million and the impact of 67 store closures (net of openings). The decrease in comparable store sales was primarily driven by a decrease in sales of new video game hardware, pre-owned and value video game products and new video game software, which were partially offset by an increase in collectibles.

The decrease in net sales was due to the following:

- New video game hardware sales decreased \$125.7 million, or 35.0%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018, primarily driven by a higher promotional activity in the prior year period, supply constraints in the market and the impact of next-generation console news; partially offset by an increase in sales of the Nintendo Switch.
- Pre-owned and value video game product sales decreased \$100.4 million, or 20.3%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018. The decrease was primarily driven by a decline in sales of pre-owned software due to weakening demand as a result of increasing digital adoption, including digital access to older titles.
- New video game software sales decreased \$20.3 million, or 4.3%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018, primarily due to a stronger lineup of new title releases in the prior year quarter.

The decreases described above were partially offset by an increase in sales of collectibles of \$14.9 million, or 10.5%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018, primarily driven by new and improved product offerings.

Cost of Sales

Cost of sales decreased \$178.2 million, or 14.2%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018, primarily as a result of the change in net sales discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit decreased \$59.9 million, or 11.3%, for the 13 weeks ended May 4, 2019 compared to the 13 weeks ended May 5, 2018, primarily due to declines in pre-owned and value video game products and new video game hardware. Gross profit as a percentage of net sales increased to 30.4% in the current year quarter compared to 29.7% in the prior year quarter. The increase in gross profit as a percentage of net sales was primarily due to a shift in mix between product categories, driven by the decline in hardware and an increase in gross profit as a percentage of net sales in video game accessories from 33.9% to 36.2%.

Selling, General and Administrative Expenses

SG&A declined by \$25.5 million, or 5.6%, to \$430.6 million for the 13 weeks ended May 4, 2019, compared to the 13 weeks ended May 5, 2018. The decline in SG&A was primarily due to the positive impact of foreign exchange rate fluctuations and a non-recurring charge of \$11.2 million recognized in the prior year period related to changes in the Company's executive management.

[Table of Contents](#)**Depreciation and Amortization**

Depreciation and amortization expense decreased \$5.4 million, or 18.9%, for the 13 weeks ended May 4, 2019, compared to the 13 weeks ended May 5, 2018, primarily due to declining capital expenditures over the past several years.

Income Tax Expense

Income tax expense was \$2.3 million, representing an effective tax rate of 23.5%, for the 13 weeks ended May 4, 2019 compared to income tax expense of \$12.4 million, representing an effective tax rate of 37.8%, for the 13 weeks ended May 5, 2018. The decrease in the effective income tax rate compared to the same period in the prior year was primarily driven by certain discrete tax items recognized in the respective periods and the relative mix of earnings across the jurisdictions within which we operate.

Operating Earnings and Net Income from Continuing Operations

The factors described above led to operating earnings of \$17.5 million for the 13 weeks ended May 4, 2019, compared to operating earnings of \$46.5 million for the 13 weeks ended May 5, 2018. Net income from continuing operations was \$7.5 million for the 13 weeks ended May 4, 2019, compared to net income of \$20.4 million for the 13 weeks ended May 5, 2018.

SEGMENT PERFORMANCE

We report our business in four geographic segments: United States, Canada, Australia and Europe. We identified these segments based on a combination of geographic areas, the methods with which we analyze performance, the way in which our sales and profits are derived and how we divide management responsibility. Our sales and profits are driven through our physical stores, which are highly integrated with our e-commerce, digital and mobile businesses. Due to this integration, our physical stores are the basis for our segment reporting. Each of the Video Game Brands segments consists primarily of retail operations, with all stores engaged in the sale of new and pre-owned video game hardware, software and accessories (which we refer to as video game products), new and pre-owned mobile devices, related accessories and collectibles. These products are substantially the same regardless of geographic location, with the primary differences in merchandise carried being the timing of the release of new products or technologies in the various segments.

With our presence in international markets, we have operations in several foreign currencies, including the Euro, Australian dollar, New Zealand dollar, Canadian dollar, Swiss franc, Danish kroner, Swedish krona, and the Norwegian kroner.

Operating earnings (loss) by operating segment, defined as income (loss) from operations before intercompany royalty fees, net interest expense and income taxes, and net sales by reportable unit in U.S. dollars were as follows (in millions):

13 weeks ended May 4, 2019 compared with the 13 weeks ended May 5, 2018

As of and for the 13 Weeks Ended May 4, 2019	United States	Canada	Australia	Europe	Consolidated
Net sales	\$ 1,143.2	\$ 72.6	\$ 101.6	\$ 230.3	\$ 1,547.7
Operating earnings (loss)	\$ 52.2	\$ (5.3)	\$ (8.2)	\$ (21.2)	\$ 17.5
Segment operating data:					
Store count	3,791	310	459	1,203	5,763
Comparable store sales ⁽¹⁾	(10.2)%	(6.4)%	(8.2)%	(12.6)%	(10.3)%

As of and for the 13 Weeks Ended May 5, 2018	United States	Canada	Australia	Europe	Consolidated
Net sales	\$ 1,293.2	\$ 81.9	\$ 122.1	\$ 288.6	\$ 1,785.8
Operating earnings (loss)	\$ 67.3	\$ (0.3)	\$ (7.6)	\$ (12.9)	\$ 46.5
Segment operating data:					
Store count	3,899	318	467	1,236	5,920
Comparable store sales ⁽¹⁾	(2.6)%	(13.8)%	(14.9)%	(9.5)%	(5.3)%

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Video Game Brands

United States

Segment results in the United States include retail GameStop operations in 50 states, the District of Columbia and Guam; our e-commerce websites www.gamestop.com and www.thinkgeek.com; *Game Informer* magazine; and Simply Mac. Net sales for the 13 weeks ended May 4, 2019 decreased \$150.0 million, or 11.6%, compared to the 13 weeks ended May 5, 2018, primarily due to a 10.2% decrease in comparable store sales. The decrease in comparable store sales was primarily the result of decreases in sales of new video game hardware and pre-owned and value video game products, which were partially offset by an increase in sales of collectibles and new video game software. Operating earnings for the 13 weeks ended May 4, 2019 was \$52.2 million compared to \$67.3 million for the same period in the prior year. The decrease in operating earnings was primarily the result of the decline in sales, partially offset by reductions to SG&A, which includes a non-recurring charge of \$11.2 million recognized in the prior year period related to changes in the Company's executive management.

Canada

Segment results for Canada include retail and e-commerce operations in Canada. Net sales for the 13 weeks ended May 4, 2019 decreased \$9.3 million, or 11.4%, compared to the 13 weeks ended May 5, 2018, primarily due to a 6.4% decrease in comparable store sales and the negative impact of foreign exchange rate fluctuations. The decrease in comparable store sales was primarily the result of decreases in sales of new video game hardware, new video game software and pre-owned and value video game products, which were partially offset by an increase in sales of collectibles. Operating loss for the 13 weeks ended May 4, 2019 was \$5.3 million compared to \$0.3 million for the same period in the prior year. The increase in operating loss is primarily due to the decline in sales.

Australia

Segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Net sales for the 13 weeks ended May 4, 2019 decreased \$20.5 million, or 16.8%, compared to the 13 weeks ended May 5, 2018 primarily due to a 8.2% decrease in comparable store sales and the negative impact of foreign exchange rate fluctuations. The decrease in comparable store sales was primarily the result of decreases in sales of new video game hardware and new video game software, partially offset by an increase in collectibles. Operating loss for the 13 weeks ended May 4, 2019 was \$8.2 million compared to \$7.6 million during the same period in the prior year. The increase in operating loss was primarily due to the decline in sales.

Europe

Segment results for Europe include retail and e-commerce operations in 10 European countries. Net sales for the 13 weeks ended May 4, 2019 decreased \$58.3 million, or 20.2%, compared to the 13 weeks ended May 5, 2018 primarily due to a 12.6% decrease in comparable store sales and the negative impact of foreign exchange rate fluctuations. The decrease in comparable store sales was primarily the result of decreases in sales of new video game hardware, pre-owned and value video game products and new video game software, which were partially offset by an increase in sales of collectibles. Operating loss for the 13 weeks ended May 4, 2019 was \$21.2 million compared to \$12.9 million during the same period in the prior year. The increase in operating loss is primarily due to the decline in sales.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As of May 4, 2019, we had total cash on hand of \$543.2 million and an additional \$337.4 million of available borrowing capacity under our revolving credit facility. Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under our asset-based revolving credit facility together will provide sufficient liquidity to fund our operations, transformation initiative and corporate capital allocation programs, including share or debt repurchases, for at least the next 12 months.

On April 4, 2019, we redeemed all of our \$350.0 million unsecured senior notes due October 2019, plus accrued but unpaid interest, at the redemption price equal to 100% of par value. We used cash on hand for the redemption of the 2019 Senior Notes. Beginning in April 2019 and through June 4, 2019, we also executed a series of open market purchases of our 2021 Senior Notes resulting in \$38.7 million in aggregate principal amount being repurchased at prices ranging from 99.6% to 101.5% of par value.

On June 11, 2019, we commenced a modified Dutch tender offer for up to 12,000,000 shares of our Class A common stock that will expire on July 10, 2019, unless extended.

On an ongoing basis, we evaluate and consider strategic alternatives, including divestitures, repurchasing shares of our common stock or our outstanding debt obligations, as well as other transactions that we believe may enhance stockholder value. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

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Cash Flows

During the 13 weeks ended May 4, 2019, cash used in operations was \$665.0 million, compared to cash used in operations of \$531.9 million during the 13 weeks ended May 5, 2018. The increase in cash used in operations of \$133.1 million was primarily attributable to the timing of vendor payments.

Cash used in investing activities was \$18.7 million during the 13 weeks ended May 4, 2019, compared to \$16.4 million during the the 13 weeks ended May 5, 2018. The \$2.3 million increase in cash used in investing activities is primarily attributable to higher capital expenditures during the 13 weeks ended May 4, 2019.

Cash used in financing activities was \$394.0 million during the 13 weeks ended May 4, 2019, compared to \$57.3 million during the 13 weeks ended May 5, 2018. The increase in cash used is primarily due to the redemption of our \$350 million in aggregate principal of 5.5% unsecured senior notes in April 2019.

Sources of Liquidity

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

We maintain an asset-based revolving credit facility (the "Revolver") with a borrowing base capacity of \$420 million and a maturity date of November 2022. The Revolver has a \$200 million expansion feature and \$50 million letter of credit sublimit, and allows for an incremental \$50 million first-in, last-out facility. The applicable margins for prime rate loans range from 0.25% to 0.50% and, for London Interbank Offered ("LIBO") rate loans, range from 1.25% to 1.50%. The Revolver is secured by substantially all of the assets of GameStop Corp. and the assets of its domestic subsidiaries. We are required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Revolver. As of May 4, 2019, our applicable margins were 0.25% for prime rate loans and 1.25% for LIBO rate loans. As of May 4, 2019, total availability under the Revolver was \$337.4 million, with no outstanding borrowings and outstanding standby letters of credit of \$7.2 million.

In March 2016, we issued \$475.0 million aggregate principal amount of unsecured 6.75% senior notes due March 15, 2021 (the "2021 Senior Notes"). Interest is payable semi-annually in arrears on March 15 and September 15 of each year. The net proceeds from the offering were used for general corporate purposes, including acquisitions and dividends.

The agreement governing our Revolver and the indenture governing our 2021 Senior Notes place certain restrictions on us and our subsidiaries, including, among others, limitations on asset sales, additional liens, investments, incurrence of additional debt and share repurchases. In addition, the indentures governing our Revolver and 2021 Senior Notes contain customary events of default, including, among others, payment defaults, breaches of covenants and certain events of bankruptcy, insolvency and reorganization. The Revolver is also subject to a fixed charge coverage ratio covenant if excess availability is below certain thresholds. We are currently in compliance with all covenants under our indentures governing the 2021 Senior Notes and our Revolver.

See Note 6, "Debt," to our consolidated financial statements for additional information related to our Revolver and 2021 Senior Notes.

Our Luxembourg subsidiary maintains a discretionary \$20.0 million Uncommitted Line of Credit (the "Line of Credit") with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of May 4, 2019, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$9.3 million.

Dividends

On June 3, 2019, our Board of Directors elected to eliminate the Company's quarterly dividend, effective immediately, in an effort to strengthen the Company's balance sheet and provide increased financial flexibility and optionality. Eliminating the Company's quarterly common stock dividend will preserve approximately \$157 million in cash annually, based on the amount of dividends paid in fiscal 2018, and enable the Company to further reduce its outstanding debt and provide flexibility to drive value creation for shareholders.

CRITICAL ACCOUNTING POLICIES

Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and do not include all disclosures required under GAAP for complete financial statements. Preparation of these statements requires us to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. For a summary of significant accounting policies and the means by which we develop estimates thereon, see "Part II—Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2018 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies from those included in our 2018 Annual Report on Form 10-K.

As disclosed in the 2018 Annual Report on Form 10-K, considerable judgment is necessary to estimate the fair value of goodwill and indefinite-lived intangible assets associated with our reporting units. As of May 4, 2019, there are no indicators of material impairment present. However, changes in the assumptions previously used in the discounted cash flow analyses, including sales trends, operating margins expectations, planned capital expenditures and discount rates may result in different estimated fair values that could result in material impairment charges. In addition, sustained declines in our stock price and related market capitalization could impact key assumptions in the overall estimated fair values of our reporting units and could result in material impairment charges.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 1 to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and other oral and written statements made by us to the public contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 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. Please refer to the "Disclosure Regarding Forward-looking Statements" and "Risk Factors" sections in our 2018 Annual Report on Form 10-K as well as Item 1A of Part II of this Quarterly Report on Form 10-Q for a description of these risks and uncertainties.

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 Quarterly Report on Form 10-Q. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Quarterly Report on Form 10-Q may not occur, causing actual results to differ materially from those anticipated or implied by our forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk as set forth in our 2018 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our principal executive officer and principal financial officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report and, based on that evaluation, determined that our disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting that were disclosed in our 2018 Annual Report on Form 10-K for the fiscal year ended February 2, 2019. Specifically, the control deficiencies associated with the material weaknesses primarily relate to end-user and privileged access to certain information technology systems that support our financial reporting process. As a result of these deficiencies, the related process-level manual and automated application controls that rely on information generated from the affected information technology systems were also deemed ineffective. These material weaknesses did not result in any identified misstatements to the financial statements, and there were no changes to previously released financial results.

Notwithstanding the material weaknesses, management, including the principal executive officer and principal financial officer, believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in accordance with GAAP.

Remediation

As previously described in Part II, Item 9A of our 2018 Annual Report on Form 10-K, our management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated. We expect that the remediation of these material weaknesses will be completed by the end of fiscal 2019.

Changes in Internal Control Over Financial Reporting

Upon adoption of ASU 2016-02, Leases, on February 3, 2019, we implemented changes in our internal controls over financial reporting by implementing new accounting processes, systems and control procedures for lease accounting. Other than the changes related to our remediation efforts and ASU 2016-02, there were no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

You should carefully consider the factors discussed in "Item 1A. Risk Factors" in our 2018 Annual Report on Form 10-K. These risks could materially and adversely affect our business, financial condition and results of operations. There have been no material changes from the risk factors disclosed in our 2018 Annual Report on Form 10-K.

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ITEM 6. EXHIBITS

Exhibit Number	Description	Previously Filed as an Exhibit to and Incorporated by Reference From	Date Filed
10.1	Employment Agreement between George Sherman and the Company dated March 21, 2019	Current Report on Form 8-K	March 21, 2019
10.2	Amendment dated May 8, 2019 to Employment Agreement dated May 31, 2018 with Daniel J. Kaufman	Current Report on Form 8-K	May 10, 2019
10.3	Employment Agreement between James A. Bell and the Company dated May 30, 2019	Current Report on Form 8-K	May 30, 2019
10.4	Employment Agreement between Chris R. Homeister and the Company dated May 30, 2019	Current Report on Form 8-K	May 30, 2019
10.5	Employment Agreement between Frank M. Hamlin and the Company dated May 30, 2019	Current Report on Form 8-K	May 30, 2019
10.6	Cooperation Agreement, dated as of March 29, 2019, by and among Permit Capital Enterprise Fund, L.P., Permit Capital, LLC, Permit Capital GP, L.P., John C. Broderick, Hestia Capital Partners LP, Hestia Capital Management, LLC, Kurtis J. Wolf and GameStop Corp.	Current Report on Form 8-K	April 1, 2019
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.	
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.	
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.	Furnished herewith.	
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.	Furnished herewith.	
101.INS	XBRL Instance Document	Submitted electronically herewith.	
101.SCH	XBRL Taxonomy Extension Schema	Submitted electronically herewith.	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Submitted electronically herewith.	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Submitted electronically herewith.	
101.LAB	XBRL Taxonomy Extension Label Linkbase	Submitted electronically herewith.	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Submitted electronically herewith.	

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request

**CERTIFICATION PURSUANT TO
17 CFR 240.13a-14(a)/15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, George E. Sherman, certify that:

- 1 I have reviewed this report on Form 10-Q of GameStop Corp.;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ GEORGE E. SHERMAN

George E. Sherman
Chief Executive Officer
GameStop Corp.

Date: June 11, 2019

**CERTIFICATION 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**

In connection with the quarterly report of GameStop Corp. (the "Company") on Form 10-Q for the period ended May 4, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George E. Sherman, Chief Executive Officer of the Company, certify, to the best of my knowledge, 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, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GEORGE E. SHERMAN

George E. Sherman
Chief Executive Officer
GameStop Corp.

June 11, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION 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**

In connection with the quarterly report of GameStop Corp. (the "Company") on Form 10-Q for the period ended May 4, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James A. Bell, Executive Vice President and Chief Financial Officer of the Company, certify, to the best of my knowledge, 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, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES A. BELL

James A. Bell

Executive Vice President and

Chief Financial Officer

GameStop Corp.

June 11, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.