

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 OCTOBER 29, 2022

OR

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

COMMISSION FILE NO. 1-32637

GameStop

GameStop Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-2733559

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

**625 Westport Parkway
Grapevine, Texas**

(Address of principal executive offices)

76051

(Zip Code)

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

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

<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 December 1, 2022: 304,578,070

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 29, 2022	October 30, 2021	January 29, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 803.8	\$ 1,413.0	\$ 1,271.4
Marketable securities	238.3	—	—
Receivables, net of allowance of \$2.0, \$5.1 and \$3.3, respectively	125.3	83.4	141.1
Merchandise inventories	1,131.3	1,140.9	915.0
Prepaid expenses and other current assets	283.1	275.8	271.3
Total current assets	2,581.8	2,913.1	2,598.8
Property and equipment, net of accumulated depreciation of \$981.4, \$1,122.0 and \$1,029.8, respectively	138.5	179.6	163.6
Operating lease right-of-use assets	523.2	615.8	586.6
Deferred income taxes	14.3	—	16.3
Other noncurrent assets	64.7	53.5	134.0
Total assets	\$ 3,322.5	\$ 3,762.0	\$ 3,499.3
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 888.4	\$ 711.5	\$ 471.0
Accrued liabilities and other current liabilities	504.2	608.5	668.9
Current portion of operating lease liabilities	186.2	211.9	210.7
Current portion of long-term debt	9.9	1.4	4.1
Total current liabilities	1,588.7	1,533.3	1,354.7
Long-term debt	28.8	44.8	40.5
Operating lease liabilities	349.6	409.7	393.7
Other long-term liabilities	110.4	19.3	107.9
Total liabilities	2,077.5	2,007.1	1,896.8
Stockholders' equity:			
Class A common stock — \$.001 par value; 1,000 shares authorized; 304.3, 303.6 and 303.6 shares issued and outstanding, respectively	0.1	0.1	0.1
Additional paid-in capital	1,606.4	1,567.9	1,577.5
Accumulated other comprehensive loss	(93.8)	(54.2)	(68.7)
Retained (loss) earnings	(267.7)	241.1	93.6
Total stockholders' equity	1,245.0	1,754.9	1,602.5
Total liabilities and stockholders' equity	\$ 3,322.5	\$ 3,762.0	\$ 3,499.3

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Net sales	\$ 1,186.4	\$ 1,296.6	\$ 3,700.8	\$ 3,756.8
Cost of sales	894.8	978.0	2,828.5	2,787.2
Gross profit	291.6	318.6	872.3	969.6
Selling, general and administrative expenses	387.9	421.5	1,227.6	1,170.7
Asset impairments	—	—	2.5	0.6
Operating loss	(96.3)	(102.9)	(357.8)	(201.7)
Interest (income) expense and other, net	(3.7)	0.8	(3.3)	26.0
Loss before income taxes	(92.6)	(103.7)	(354.5)	(227.7)
Income tax expense	2.1	1.7	6.8	6.1
Net loss	\$ (94.7)	\$ (105.4)	\$ (361.3)	\$ (233.8)
Net loss per share:				
Basic	\$ (0.31)	\$ (0.35)	\$ (1.19)	\$ (0.82)
Diluted	(0.31)	(0.35)	(1.19)	(0.82)
Weighted-average shares outstanding:				
Basic	304.2	303.6	304.1	286.0
Diluted	304.2	303.6	304.1	286.0

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions)
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Net loss	\$ (94.7)	\$ (105.4)	\$ (361.3)	\$ (233.8)
Other comprehensive loss:				
Foreign currency translation adjustment	(16.6)	2.1	(24.9)	(4.9)
Net change in unrealized loss on available-for-sale securities	(0.2)	—	(0.2)	—
Total comprehensive loss	<u>\$ (111.5)</u>	<u>\$ (103.3)</u>	<u>\$ (386.4)</u>	<u>\$ (238.7)</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	October 29, 2022	October 30, 2021
Cash flows from operating activities:		
Net loss	\$ (361.3)	\$ (233.8)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	47.5	53.2
Stock-based compensation expense	32.2	20.7
Gain on sale of digital assets	(7.1)	—
Digital asset impairments	33.9	—
Asset impairments	2.5	0.6
Loss on disposal of property and equipment, net	5.1	1.9
Loss on retirement of debt	—	18.2
Other, net	6.9	(1.4)
Changes in operating assets and liabilities:		
Receivables, net	13.3	21.0
Merchandise inventories	(245.0)	(545.2)
Prepaid expenses and other assets	(38.7)	(5.1)
Prepaid income taxes and income taxes payable	0.9	(12.9)
Accounts payable and accrued liabilities	288.7	376.9
Operating lease right-of-use assets and lease liabilities	(7.7)	(18.1)
Changes in other long-term liabilities	(1.2)	—
Net cash flows used in operating activities	(230.0)	(324.0)
Cash flows from investing activities:		
Proceeds from sale of digital assets	77.4	—
Purchases of marketable securities	(237.0)	—
Capital expenditures	(44.3)	(40.7)
Other	0.3	(0.4)
Net cash flows used in investing activities	(203.6)	(41.1)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of costs	—	1,672.8
Repayments of revolver borrowings	—	(25.0)
Payments of senior notes	—	(307.4)
Settlement of stock-based awards	(3.3)	(136.6)
Other	—	(0.1)
Net cash flows (used in) provided by financing activities	(3.3)	1,203.7
Exchange rate effect on cash, cash equivalents and restricted cash	(23.5)	(5.5)
(Decrease) increase in cash, cash equivalents and restricted cash	(460.4)	833.1
Cash, cash equivalents and restricted cash at beginning of period	1,319.9	635.0
Cash, cash equivalents and restricted cash at end of period	\$ 859.5	\$ 1,468.1

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions, except for per share data)
(unaudited)

	Class A Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance at January 29, 2022	303.6	\$ 0.1	\$ 1,577.5	\$ (68.7)	\$ 93.6	\$ 1,602.5
Net loss	—	—	—	—	(157.9)	(157.9)
Foreign currency translation	—	—	—	(3.9)	—	(3.9)
Stock-based compensation expense	—	—	11.1	—	—	11.1
Settlement of stock-based awards	—	—	(1.1)	—	—	(1.1)
Balance at April 30, 2022	303.6	\$ 0.1	\$ 1,587.5	\$ (72.6)	\$ (64.3)	\$ 1,450.7
Net loss	—	—	—	—	(108.7)	(108.7)
Foreign currency translation	—	—	—	(4.4)	—	(4.4)
Stock-based compensation expense	—	—	7.8	—	—	7.8
Settlement of stock-based awards	0.4	—	(1.9)	—	—	(1.9)
Balance at July 30, 2022	304.0	\$ 0.1	\$ 1,593.4	\$ (77.0)	\$ (173.0)	\$ 1,343.5
Net loss	—	—	—	—	(94.7)	(94.7)
Foreign currency translation	—	—	—	(16.6)	—	(16.6)
Stock-based compensation expense	—	—	13.3	—	—	13.3
Settlement of stock-based awards	0.1	—	(0.3)	—	—	(0.3)
Net change in unrealized loss on available for sale securities	—	—	—	(0.2)	—	(0.2)
Balance at October 29, 2022	304.1	\$ 0.1	\$ 1,606.4	\$ (93.8)	\$ (267.7)	\$ 1,245.0

	Class A Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 30, 2021	261.2	\$ 0.1	\$ 11.0	\$ (49.3)	\$ 474.9	\$ 436.7
Net loss	—	—	—	—	(66.8)	(66.8)
Issuance of common stock, net of cost	14.0	—	551.7	—	—	551.7
Foreign currency translation	—	—	—	2.1	—	2.1
Stock-based compensation expense	—	—	5.7	—	—	5.7
Settlement of stock-based awards	2.0	—	(49.9)	—	—	(49.9)
Balance at May 1, 2021	277.2	\$ 0.1	\$ 518.5	\$ (47.2)	\$ 408.1	\$ 879.5
Net loss	—	—	—	—	(61.6)	(61.6)
Issuance of common stock, net of cost	20.0	—	1,121.1	—	—	1,121.1
Foreign currency translation	—	—	—	(9.1)	—	(9.1)
Stock-based compensation expense	—	—	8.8	—	—	8.8
Settlement of stock-based awards	6.4	—	(86.7)	—	—	(86.7)
Balance at July 31, 2021	303.6	\$ 0.1	\$ 1,561.7	\$ (56.3)	\$ 346.5	\$ 1,852.0
Net loss	—	—	—	—	(105.4)	(105.4)
Foreign currency translation	—	—	—	2.1	—	2.1
Stock-based compensation expense	—	—	6.2	—	—	6.2
Balance at October 30, 2021	303.6	\$ 0.1	\$ 1,567.9	\$ (54.2)	\$ 241.1	\$ 1,754.9

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions, except per share amounts)
(unaudited)

1. General Information

The Company

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") offers games, entertainment products and technology through its ecommerce properties and stores.

We operate our business in four geographic segments: United States, Canada, Australia and Europe. The information contained in these condensed consolidated financial statements refers to continuing operations unless otherwise noted.

Basis of Presentation and Consolidation

The 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 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 for the periods presented. These condensed 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 the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they exclude certain disclosures required under GAAP for complete consolidated financial statements.

The accompanying condensed consolidated financial statements and notes are unaudited. The consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the 52 weeks ended January 29, 2022, as filed with the Securities and Exchange Commission ("SEC") on March 17, 2022 (the "2021 Annual Report on Form 10-K"). Due to the seasonal nature of our business, our results of operations for the nine months ended October 29, 2022 are not indicative of our future results for the 52 weeks ending January 28, 2023. Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Each of our fiscal years ending January 28, 2023 and January 29, 2022 consist of 52 weeks. All three and nine month periods presented herein contain 13 and 39 weeks, respectively. All references to years, quarters and months relate to fiscal periods rather than calendar periods. Our business, like that of many retailers, is seasonal, with the major portion of the net sales realized during the fourth quarter, which includes the holiday selling season.

Stock Split

On July 6, 2022, our Board of Directors declared a four-for-one stock split of our Class A common stock in the form of a stock dividend (the "Stock Split"). This dividend was distributed on July 21, 2022 to stockholders of record at the close of business on July 18, 2022. There was no net effect on total stockholders' equity, and the par value per share of our Class A stock remains unchanged at \$0.001 per share after the Stock Split. All references made to share or per share amounts in the accompanying condensed consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect the effects of the Stock Split.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying footnotes. We regularly evaluate the estimates related to our assets and liabilities, contingent assets and liabilities, and the reported amounts of revenues and expenses. In preparing these condensed consolidated financial statements, we have made our best estimates and judgments of certain amounts recognized in the condensed consolidated financial statements, giving due consideration to materiality. Changes in the estimates and assumptions that we have used could have a significant impact on our financial results. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

Included below are certain updates related to policies included in Part II, Item 8 "Notes to Consolidated Financial Statements", [Note 2](#), Summary of Significant Accounting Policies," in the 2021 Annual Report on Form 10-K.

Cash and Cash Equivalents and Restricted Cash

Our cash and cash equivalents are carried at cost, which approximates market value, and consist primarily of highly-rated money market funds and investment grade short-term fixed income securities, including U.S. government and agency securities. Such investments with an original maturity of 90 days or less are classified as cash and cash equivalents on our Condensed Consolidated Balance Sheets. Restricted cash consists primarily of bank deposits that collateralize our obligations to vendors and landlords.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions, except per share amounts)
(unaudited)

The following table presents a reconciliation of cash, cash equivalents and restricted cash in our Condensed Consolidated Balance Sheets to total cash, cash equivalents and restricted cash in our Condensed Consolidated Statements of Cash Flows:

	October 29, 2022	October 30, 2021	January 29, 2022
Cash and cash equivalents	\$ 803.8	\$ 1,413.0	\$ 1,271.4
Restricted cash ⁽¹⁾	40.9	39.5	33.1
Long-term restricted cash ⁽²⁾	14.8	15.6	15.4
Total cash, cash equivalents and restricted cash	<u>\$ 859.5</u>	<u>\$ 1,468.1</u>	<u>\$ 1,319.9</u>

(1) Recognized in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

(2) Recognized in other noncurrent assets on our Condensed Consolidated Balance Sheets.

Investments

We generally invest our excess cash in highly-rated money market funds and investment grade short-term fixed income securities, which consist of U.S. government and agency securities. Such investments with an original maturity in excess of 90 days and less than one year are classified as marketable securities on our Condensed Consolidated Balance Sheets.

Our investments are classified as available-for-sale debt securities and reported at fair value. Unrealized holding gains and losses are recognized in accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheets. Realized gains and losses upon sale or extinguishment are reported in interest (income) expense and other, net in our Condensed Consolidated Statements of Operations. Each reporting period, we evaluate whether declines in fair value below carrying value are due to expected credit losses, as well as our ability and intent to hold the investment until a forecasted recovery occurs.

Digital Assets

We account for digital assets in accordance with ASC 350, Intangibles-Goodwill and Other (Topic 350). Our digital assets are indefinite-lived intangible assets which are initially recorded at cost. Accordingly, if the fair market value at any point during the reporting period is lower than the carrying value, an impairment loss equal to the difference will be recognized in SG&A expenses in our Condensed Consolidated Statement of Operations. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale or disposal of the asset. Gains on the sale of digital assets, if any, will be recognized based on the fair value upon sale or disposal of the assets in SG&A expenses in our Condensed Consolidated Statement of Operations.

In January 2022, we entered into a partnership with Immutable X Pty Limited ("IMX") and Digital Worlds NFTs Ltd. ("Digital Worlds") pursuant to which the Company was entitled to receive digital assets in the form of IMX tokens once certain milestones have been achieved. Upon entering the agreement, we recognized the fair value of noncurrent receivables and deferred income of \$79.0 million. In February 2022, upon announcement of the agreement, we recognized the fair value of noncurrent receivables and deferred income of \$31.7 million. Noncurrent receivables and deferred income are recognized in other noncurrent assets and other long-term liabilities, respectively, on our Condensed Consolidated Balance Sheets. Once the IMX tokens were received, we recorded the digital asset as an indefinite-lived intangible asset and derecognized the noncurrent receivable. The deferred income is recognized over the term of the agreement. During the three and nine months ended October 29, 2022, we recognized \$13.9 million and \$41.7 million, respectively, of income in SG&A expenses in our Condensed Consolidated Statement of Operations. In February 2022, we sold the digital assets related to this transaction and recognized a gain on sale of \$6.9 million in SG&A expenses in our Condensed Consolidated Statement of Operations.

During the second quarter of 2022, we launched beta versions of a non-custodial digital asset wallet and a peer-to-peer non-fungible token ("NFT") marketplace that will enable purchases, sales, and trades of NFTs. Revenues earned related to our NFT digital asset wallet and marketplace are recognized in net sales in our Condensed Consolidated Statement of Operations. Revenues earned from our digital asset wallet and NFT marketplace were not material to the condensed consolidated financial statements for the three and nine months ended October 29, 2022.

At-the-Market Equity Offering

During the nine months ended October 30, 2021, we sold an aggregate of 34,000,000 shares of our common stock under two at-the market equity offering programs (the "ATM Transactions"). We generated \$1.68 billion in aggregate gross proceeds from sales under the ATM Transactions and paid an aggregate of \$10.1 million in commissions to the sales agent, among other legal and administrative fees. These commissions and fees were recognized in additional paid-in capital on our Condensed Consolidated Balance Sheets and SG&A expenses in our Condensed Consolidated Statements of Operations.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions, except per share amounts)
(unaudited)

3. New Accounting Pronouncements

Recently Adopted Accounting Standards

In March 2022, the SEC staff released Staff Accounting Bulletin No. 121 ("SAB 121"), which requires entities that hold crypto assets on behalf of platform users to recognize a liability to reflect the entity's obligation to safeguard the crypto assets held for its platform users, whether directly or through an agent or another third party acting on its behalf, along with a corresponding safeguarding asset. Both the liability and corresponding safeguarding asset shall be measured at fair value. SAB 121 also requires disclosure of the nature and amount of crypto assets being safeguarded, how the fair value is determined, an entity's accounting policy for safeguarding liabilities and corresponding safeguarding assets, and may require disclosure of other information about risks and uncertainties arising from the entity's safeguarding activities. For crypto assets that are not maintained on our platform and for which the Company does not maintain a private key or the ability to recover a customer's private key, these balances are not recorded, as there is no related safeguarding obligation in accordance with SAB 121. This guidance is effective from the first interim period after June 15, 2022 and should be applied retrospectively. We adopted SAB 121 during the second quarter of 2022, with no impact on our condensed consolidated financial statements.

4. Revenue

The following table presents net sales by significant product category:

	Three Months Ended		Nine Months Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Hardware and accessories ⁽¹⁾	\$ 627.0	\$ 669.9	\$ 1,897.2	\$ 1,983.0
Software ⁽²⁾	352.1	434.5	1,152.2	1,229.0
Collectibles	207.3	192.2	651.4	544.8
Total net sales	<u>\$ 1,186.4</u>	<u>\$ 1,296.6</u>	<u>\$ 3,700.8</u>	<u>\$ 3,756.8</u>

(1) Includes sales of new and pre-owned hardware, accessories, hardware bundles in which hardware and digital or physical software are sold together in a single SKU, interactive game figures, strategy guides, mobile and consumer electronics.

(2) Includes sales of new and pre-owned gaming software, digital software, and PC entertainment software.

See [Note 9](#), "Segment Information," for net sales by geographic location.

Performance Obligations

We have arrangements with customers where our performance obligations are satisfied over time, which primarily relate to extended warranties and our *Game Informer*® magazine. 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 customers redeem gift cards, trade-in credits, customer deposits or loyalty program points for products that we offer. Unredeemed customer liabilities are generally redeemed within one year of issuance.

We offer extended warranties on certain new and pre-owned 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.

Performance obligations associated with subscriptions to *Game Informer*® magazine are satisfied when periodic magazines are delivered in print form or made available in digital format.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in millions, except per share amounts)
(unaudited)

The following table presents our performance obligations recognized in accrued liabilities and other current liabilities on our Condensed Consolidated Statements of Operations:

	October 29, 2022	October 30, 2021
Unredeemed customer liabilities	\$ 204.9	\$ 226.9
Extended warranties	80.2	66.7
Magazine subscriptions	44.0	45.1
Total performance obligations	<u>\$ 329.1</u>	<u>\$ 338.7</u>

Significant Judgments and Estimates

We accrue PowerUp Rewards loyalty points at the estimated retail price per point, net of estimated breakage, which can be redeemed by loyalty program members for products we offer. The estimated retail price per point is based on the actual historical retail prices of products purchased through the redemption of loyalty points. We estimate breakage of loyalty points and unredeemed gift cards based on historical redemption rates.

Contract Balances

Our contract liabilities primarily consist of unredeemed customer liabilities and deferred revenues associated with gift cards, extended warranties and subscriptions to *Game Informer*® magazine.

The following table presents a rollforward of our contract liabilities:

	October 29, 2022	October 30, 2021
Contract liability beginning balance	\$ 378.3	\$ 348.2
Increase to contract liabilities ⁽¹⁾	586.6	680.1
Decrease to contract liabilities ⁽²⁾	(630.7)	(688.9)
Other adjustments ⁽³⁾	(5.1)	(0.7)
Contract liability ending balance	<u>\$ 329.1</u>	<u>\$ 338.7</u>

- (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 customer deposits and revenues recognized for *Game Informer*® and extended warranties. During the nine months ended October 29, 2022 and October 30, 2021, there were \$42.9 million and \$41.6 million of gift cards redeemed that were outstanding as of January 29, 2022 and January 30, 2021, respectively.
- (3) Primarily includes foreign currency translation adjustments.

5. Fair Value Measurements

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. Each fair value measurement is reported in one of the following three levels:

- 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 in 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 that are measured at fair value on a recurring basis include our cash equivalents, marketable securities, foreign currency contracts, company-owned life insurance policies with a cash surrender value, and certain nonqualified deferred compensation liabilities.

We measure the fair value of cash equivalents and certain marketable securities based on quoted prices in active markets for identical assets or liabilities. Other marketable securities were valued either based on recent trades of securities in inactive markets or based on quoted market prices of similar instruments and other significant inputs derived from or corroborated by observable market data.

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We measure the fair value of our foreign currency contracts, 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, and 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.

The following table presents our assets and liabilities measured at fair value on a recurring basis:

	Level 1			Level 2		
	October 29, 2022	October 30, 2021	January 29, 2022	October 29, 2022	October 30, 2021	January 29, 2022
Assets						
U.S. government securities ⁽¹⁾	\$ 251.4	\$ —	\$ —	\$ —	\$ —	\$ —
Foreign currency contracts ⁽²⁾	—	—	—	2.7	4.1	3.8
Company-owned life insurance ⁽³⁾	—	—	—	0.5	3.0	0.6
Total assets	\$ 251.4	\$ —	\$ —	\$ 3.2	\$ 7.1	\$ 4.4
Liabilities						
Foreign currency contracts ⁽⁴⁾	\$ —	\$ —	\$ —	\$ —	\$ 0.1	\$ 0.4
Nonqualified deferred compensation ⁽⁴⁾	—	—	—	0.4	0.6	0.6
Total liabilities	\$ —	\$ —	\$ —	\$ 0.4	\$ 0.7	\$ 1.0

(1) Recognized in cash and cash equivalents and marketable securities on our Consolidated Balance Sheets.

(2) Recognized in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

(3) Recognized in other noncurrent assets on our Condensed Consolidated Balance Sheets.

(4) Recognized in accrued liabilities and other current liabilities on our Condensed Consolidated Balance Sheets.

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, operating lease right-of-use ("ROU") assets and other intangible assets, including digital assets, which are remeasured when the estimated fair value is below its carrying value. When we determine that impairment has occurred, the carrying value of the asset is reduced to its fair value. Fair value of digital assets held are based on Level 2 inputs, as described above, and impairment losses for digital assets cannot be recovered for any subsequent increase in fair value until the sale or disposal of the asset.

During the nine months ended October 29, 2022, we recognized impairment charges of \$33.9 million associated with digital assets in SG&A expenses in our Condensed Consolidated Statements of Operations. These charges were recognized in the United States segment.

During the nine months ended October 29, 2022, we recognized impairment charges of \$2.5 million associated with certain store-level intangible assets to reflect their fair values in our Condensed Consolidated Statements of Operations. These charges were recognized in our Europe segment. During the nine months ended October 30, 2021, we recognized impairment charges of \$0.6 million associated with store-level ROU assets to reflect their fair values in asset impairments in our Condensed Consolidated Statements of Operations. These charges were recognized in our United States segment.

The carrying values of our cash, restricted cash, net receivables, accounts payable and current portion of debt approximate their fair values due to their short-term maturities.

As of October 29, 2022, our government-guaranteed low interest French term loans due October 2022 through October 2026 ("French Term Loans") had a carrying value of \$38.7 million and a fair value of \$32.7 million. The fair values of our French Term Loans were estimated based on a model that discounted future principal and interest payments at interest rates available to us at the end of the period for similar debt of the same maturity, which is a Level 2 input as defined by the fair value hierarchy.

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(Tabular amounts in millions, except per share amounts)
(unaudited)

6. Debt

As of October 29, 2022, October 30, 2021 and January 29, 2022, there was \$38.7 million, \$46.2 million and \$44.6 million of outstanding debt. Total outstanding debt includes \$9.9 million, \$1.4 million and \$4.1 million of short-term debt as of October 29, 2022, October 30, 2021 and January 29, 2022, respectively, which represents the current portion of the French Term Loans.

During 2020, our French subsidiary, Micromania SAS, entered into six separate unsecured term loans for a total of €40.0 million, or \$38.7 million, as of October 29, 2022. In the second quarter of 2021, at the request of Micromania SAS, these term loans were extended for five years, with an amortization plan for the principal starting in October 2022. The interest rate is 0.7% for three of the term loans totaling €20.0 million, and 1% for the remaining three term loans totaling €20.0 million. The French government has guaranteed 90% of the term loans pursuant to a state guaranteed loan program instituted in connection with the COVID-19 pandemic.

7. Commitments and Contingencies

Letter of Credit Facilities

We maintain uncommitted letter of credit facilities with certain lenders that provide for the issuance of letters of credit and bank guarantees, at times supported by cash collateral. As of October 29, 2022, we had approximately \$13.4 million of outstanding letters of credit and other bank guarantees under facilities outside of our \$500 million revolving line of credit which matures in November 2026.

During the nine months ended October 29, 2022, there were no material changes to our commitments as disclosed in our 2021 Annual Report on Form 10-K except as discussed in [Note 6](#), "Debt."

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, unvested restricted stock and unvested restricted stock units 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 anti-dilutive. A net loss from continuing operations causes all potentially dilutive securities to be anti-dilutive. We have certain undistributed stock awards that participate in dividends on a non-forfeitable basis, however, their impact on earnings per share under the two-class method is negligible.

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(Tabular amounts in millions, except per share amounts)
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The following table presents a reconciliation of shares used in calculating basic and diluted net loss per common share:

	Three Months Ended		Nine Months Ended	
	October 29, 2022	October 30, 2021	October 29, 2022	October 30, 2021
Weighted-average common shares outstanding	304.2	303.6	304.1	286.0
Dilutive effect of restricted stock awards	—	—	—	—
Weighted-average diluted common shares	304.2	303.6	304.1	286.0
Anti-dilutive shares:				
Restricted stock units	7.0	2.8	7.0	2.8
Restricted stock	0.3	1.6	0.3	1.6

As of October 29, 2022 and October 30, 2021 there were 7.3 million and 4.4 million, respectively, of unvested restricted stock and restricted stock units. As of October 29, 2022 and October 30, 2021 there were 311.6 million and 308.0 million, respectively, of shares of Class A common stock that are legally issued and outstanding or are unvested restricted share units that represent a right to one share of Class A Common Stock.

As of October 29, 2022, 71.8 million shares of our Class A common stock were directly registered with our transfer agent.

9. Segment Information

We operate our business in four geographic segments: United States, Canada, Australia and Europe.

We identified segments based on a combination of geographic areas and management responsibility. Segment results for the United States include retail operations in 50 states; our ecommerce operations; and *Game Informer*® magazine. The United States segment also includes general and administrative expenses related to our corporate offices in the United States. Segment results for Canada include retail and ecommerce operations in Canada and segment results for Australia include retail and ecommerce operations in Australia and New Zealand. Segment results for Europe include retail and ecommerce operations in six countries. We measure segment profit using operating earnings, which is defined as income (loss) from operations before intercompany royalty fees, net interest (income) 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 three and nine months ended October 29, 2022 and October 30, 2021.

	United States	Canada	Australia	Europe	Consolidated
Three Months Ended October 29, 2022					
Net sales	\$ 799.1	\$ 67.9	\$ 122.8	\$ 196.6	\$ 1,186.4
Operating loss	(83.1)	(4.0)	(0.9)	(8.3)	(96.3)
Three Months Ended October 30, 2021					
Net sales	\$ 875.5	\$ 68.3	\$ 127.1	\$ 225.7	\$ 1,296.6
Operating (loss) earnings	(98.5)	(1.5)	0.7	(3.6)	(102.9)
Nine Months Ended October 29, 2022					
Net sales	\$ 2,587.9	\$ 207.1	\$ 363.3	\$ 542.5	\$ 3,700.8
Operating loss	(308.7)	(9.0)	(1.9)	(38.2)	(357.8)
Nine Months Ended October 30, 2021					
Net sales	\$ 2,636.9	\$ 193.0	\$ 373.1	\$ 553.8	\$ 3,756.8
Operating (loss) earnings	(152.3)	(5.2)	3.9	(48.1)	(201.7)

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in millions, except per share amounts)
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10. Income Taxes

The Coronavirus Aid, Relief, and Economic Securities Act (the "CARES Act"), which was enacted on March 27, 2020 in the United States, included measures to assist companies, including temporary changes to income and non-income-based tax laws. As of October 29, 2022, we have a \$168.6 million U.S. federal income tax receivable resulting from the carryback of net operating losses allowed pursuant to the CARES Act. Income tax receivable is recognized in prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets.

Our interim tax provision was determined using an estimated annual effective tax rate and adjusted for discrete taxable events and/or adjustments that have occurred during the three and nine months ended October 29, 2022.

We recognized an income tax expense of \$2.1 million, or (2.3)%, for the three months ended October 29, 2022 compared to an income tax expense of \$1.7 million, or (1.6)%, for the three months ended October 30, 2021. Our effective income tax rate for both periods is primarily due to not recognizing tax benefits on certain current period losses as well as forecasted income taxes due in certain foreign and state jurisdictions in which we operate.

We recognized an income tax expense of \$6.8 million, or (1.9)%, for the nine months ended October 29, 2022 compared to an income tax expense of \$6.1 million, or (2.7)%, for the nine months ended October 30, 2021. Our effective income tax rate for both periods is primarily due to not recognizing tax benefits on certain current period losses as well as forecasted income taxes due in certain foreign and state jurisdictions in which we operate.

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 condensed consolidated financial statements, including the notes thereto set forth in Part I, Item 1 of this Form 10-Q. 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. These statements are only predictions based on current expectations and assumptions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements included in this Form 10-Q are based upon information available to us as of the filing date of this Form 10-Q, and we undertake no obligation to update or revise any of these forward-looking statements for any reason, whether as a result of new information, future events or otherwise after the date of this Form 10-Q, except as required by law. You should not place undue reliance on these forward-looking statements. The forward-looking statements involve a number of 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. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements and are discussed in our 2021 Annual Report on Form 10-K, including the disclosures under Part I, Item 1A "Risk Factors" and Part II, Item 1A "Risk Factors" of this Form 10-Q, our Q1 fiscal 2022 Quarterly Report on Form 10-Q, and Q2 fiscal 2022 Quarterly Report on Form 10-Q.

OVERVIEW

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company"), a Delaware corporation established in 1996, is a leading specialty retailer offering games and entertainment products through its ecommerce properties and thousands of stores.

We operate our business in four geographic segments: United States, Canada, Australia and Europe. Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. The fiscal year ending January 28, 2023 and the fiscal year ended January 29, 2022 each consist of 52 weeks. All three and nine month periods presented herein contain 13 and 39 weeks, respectively. All references to years, quarters and months relate to fiscal periods rather than calendar periods. The discussion and analysis of our results of operations refers to continuing operations unless otherwise noted. Our business, like that of many retailers, is seasonal, with the major portion of the net sales realized during the fourth quarter, which includes the holiday selling season.

BUSINESS PRIORITIES

The initial phase of GameStop's transformation largely occurred over the course of 2021 and the first half of 2022. This period was primarily focused on rebuilding the Company's decaying infrastructure and strengthening GameStop's value proposition, including investing in the Company's enterprise systems, technology capabilities, Store Leaders and store associates, and product catalog and offerings.

GameStop has entered a new phase of its transformation during the back half of 2022. As a result, GameStop is focused on two overarching goals: attaining profitability in the near-future and generating sustainable growth over the long-term.

We are taking the following steps, with a significant emphasis on cost containment:

- Ensuring the Company's cost structure is sustainable relative to revenue, including taking steps to optimize our workforce to operate efficiently and nimbly;
- Improving margins through operational discipline and increased emphasis on higher margin collectibles and pre-owned product categories;
- Prudently increasing the size of our addressable market by growing our product catalog across PC gaming, collectibles, consumer electronics, toys, augmented reality, virtual reality and other categories that represent natural extensions of our business; and
- Sustaining a superior customer experience supported by a seamless in-store and ecommerce experience with speedy delivery to our customers.

By executing on these priorities, we can create a compelling experience for customers and be positioned to invest pragmatically in growth initiatives. We can also maintain a strong balance sheet. In connection with our cost reduction efforts, we expect to see favorable impacts to our selling, general and administrative ("SG&A") expenses in the quarters to come as we pursue profitability. We believe these efforts are critical to achieve sustained profitability to enable long-term value creation for our stockholders.

In May 2022, we announced the launch of our non-custodial digital asset wallet to allow gamers and others to store, send, receive, and use cryptocurrencies and non-fungible tokens (“NFTs”) across decentralized apps. In July 2022, we launched our NFT marketplace to allow gamers, creators, collectors and others to buy, sell and trade NFTs. Our NFT marketplace enables parties to own their digital assets, which are represented and secured on the blockchain, and allows parties to connect to their own digital asset wallets to enable transactions. During fiscal November 2022 we launched the integration of the Immutable X blockchain protocol, which provides access to various web 3 games and NFT gaming assets to our customers.

CONSOLIDATED RESULTS OF OPERATIONS

The following table presents certain statement of operations items and as a percentage of net sales:

	Three Months Ended				Change	
	October 29, 2022		October 30, 2021			
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	\$	%
Net sales	\$ 1,186.4	100.0 %	\$ 1,296.6	100.0 %	\$ (110.2)	(8.5)%
Cost of sales	894.8	75.4	978.0	75.4	(83.2)	(8.5)
Gross profit	291.6	24.6	318.6	24.6	(27.0)	(8.5)
Selling, general and administrative expenses	387.9	32.7	421.5	32.5	(33.6)	(8.0)
Operating loss	(96.3)	(8.1)	(102.9)	(7.9)	6.6	6.4
Interest (income) expense, net	(3.7)	(0.3)	0.8	0.1	(4.5)	562.5
Loss before income taxes	(92.6)	(7.8)	(103.7)	(8.0)	11.1	(10.7)
Income tax expense	2.1	0.2	1.7	0.1	0.4	(23.5)
Net loss	\$ (94.7)	(8.0)%	\$ (105.4)	(8.1)%	\$ 10.7	10.2 %

	Nine Months Ended				Change	
	October 29, 2022		October 30, 2021			
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	\$	%
Net sales	\$ 3,700.8	100.0 %	\$ 3,756.8	100.0 %	\$ (56.0)	(1.5)%
Cost of sales	2,828.5	76.4	2,787.2	74.2	41.3	1.5
Gross profit	872.3	23.6	969.6	25.8	(97.3)	(10.0)
Selling, general and administrative expenses	1,227.6	33.2	1,170.7	31.2	56.9	4.9
Asset impairments	2.5	0.1	0.6	—	1.9	316.7
Operating loss	(357.8)	(9.7)	(201.7)	(5.4)	(156.1)	(77.4)
Interest (income) expense, net	(3.3)	(0.1)	26.0	0.7	(29.3)	(112.7)
Loss before income taxes	(354.5)	(9.6)	(227.7)	(6.1)	(126.8)	(55.7)
Income tax expense	6.8	0.2	6.1	0.2	0.7	11.5
Net loss	\$ (361.3)	(9.8)%	\$ (233.8)	(6.3)%	\$ (127.5)	(54.5)%

The Three and Nine Months Ended October 29, 2022 Compared to the Three and Nine Months Ended October 30, 2021

Net Sales

The following table presents net sales by significant product category:

	Three months ended				Nine Months Ended			
	October 29, 2022		October 30, 2021		October 29, 2022		October 30, 2021	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
Hardware and accessories	\$ 627.0	52.8 %	\$ 669.9	51.7 %	\$ 1,897.2	51.3 %	\$ 1,983.0	52.8 %
Software	352.1	29.7	434.5	33.5	1,152.2	31.1	1,229.0	32.7
Collectibles	207.3	17.5	192.2	14.8	651.4	17.6	544.8	14.5
Total net sales	\$ 1,186.4	100.0 %	\$ 1,296.6	100.0 %	\$ 3,700.8	100.0 %	\$ 3,756.8	100.0 %

The following table presents net sales by reportable segment:

	Three Months Ended				Nine Months Ended			
	October 29, 2022		October 30, 2021		October 29, 2022		October 30, 2021	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
United States	\$ 799.1	67.4 %	\$ 875.5	67.5 %	\$ 2,587.9	69.9 %	\$ 2,636.9	70.2 %
Canada	67.9	5.7	68.3	5.3	207.1	5.6	193.0	5.1
Australia	122.8	10.4	127.1	9.8	363.3	9.8	373.1	10.0
Europe	196.6	16.5	225.7	17.4	542.5	14.7	553.8	14.7
Total net sales	\$ 1,186.4	100.0 %	\$ 1,296.6	100.0 %	\$ 3,700.8	100.0 %	\$ 3,756.8	100.0 %

Net sales decreased \$110.2 million or 8.5% and \$56.0 million or 1.5%, respectively, for the three and nine months ended October 29, 2022 compared to the prior year.

During the three months ended October 29, 2022, net sales in our United States, Canada, Australia, and Europe segments decreased by 8.7%, 0.6%, 3.4%, and 12.9%, respectively, compared to the prior year. During the nine months ended October 29, 2022, net sales in our United States, Australia, and Europe segments decreased by 1.9%, 2.6%, and 2.0% respectively, while net sales in our Canada segment increased by 7.3% compared to the prior year.

The decrease in consolidated net sales for the three and nine months ended October 29, 2022 was primarily attributable to the translation impact of a stronger U.S. dollar, a decline in sales from new software releases, a decline in new gaming hardware sales due to slowing demand on certain previous generation hardware, and supply constraints for the latest generation hardware, despite strong demand.

Gross Profit

During the three months ended October 29, 2022, gross profit decreased \$27.0 million, or 8.5%, compared to the prior year. Gross profit as a percentage of net sales increased to 24.6%, compared to 24.6% in the prior year. The decline in gross profit is primarily attributable to the translation impact of a stronger U.S. dollar, and a decline in net sales, partially offset by a decrease in freight cost.

During the nine months ended October 29, 2022, gross profit decreased \$97.3 million, or 10.0%, compared to the prior year. Gross profit as a percentage of net sales declined to 23.6%, compared to 25.8% in the prior year. The decline in gross profit for the nine months ended October 29, 2022 was primarily attributable to the translation impact of a stronger U.S. dollar, a decline in net sales, higher freight costs driven by supply chain constraints in the first half of the current year, and higher markdown rates on overstock inventory.

Selling, General and Administrative Expenses

During the three months ended October 29, 2022, SG&A expenses decreased \$33.6 million, or 8.0%, compared to the prior year. SG&A expenses as a percentage of sales was comparable to the prior year. SG&A expenses decreased primarily due to a reduction in labor-related and consulting service costs driven by our focus on cost structure optimization efforts.

During the nine months ended October 29, 2022, SG&A expenses increased \$56.9 million, or 4.9% compared to the prior year. SG&A expenses as a percentage of sales increased to 33.2% during the nine months ended October 29, 2022 compared to 31.2% in the prior year. SG&A expenses increased primarily due to the impact of digital asset impairment charges incurred during the first quarter of 2022 and labor-related costs incurred during the first half of the year associated with transformation initiatives. These increases are partially offset by the impact of a reduction in labor-related and consulting service costs driven by our focus on cost structure optimization efforts which accelerated during the third quarter of 2022, and the recognition of income related to our partnership with IMX.

Asset Impairments

During the nine months ended October 29, 2022 and October 30, 2021, we recognized \$2.5 million and \$0.6 million in asset impairment charges related to store-level assets. See Item 1, Notes to the Condensed Consolidated Financial Statements, [Note 5](#), "Fair Value Measurements," for additional information.

Interest (Income) Expense, Net

During the three months ended October 29, 2022, we recognized net interest income of \$3.7 million, compared to net interest expense of \$0.8 million in the comparable prior year period. The impact is primarily attributable to the amortization of discounts on our available for sale marketable securities and higher returns on invested cash.

During the nine months ended October 29, 2022 and October 30, 2021, we recognized net interest income of \$3.3 million and net interest expense of \$26.0 million, respectively. The impact is primarily attributable to the repayment of the \$73.2 million aggregate principal amount of our then outstanding 6.75% Senior Notes due 2021 (the "2021 Senior Notes") and the remaining \$216.4 million aggregate principal amount of our then outstanding 10% Senior Notes due 2023 (the "2023 Senior Notes") including a \$17.8 million make-whole premium, in the first quarter of 2021.

See Part I, Item 1 "Notes to the Condensed Consolidated Financial Statements", [Note 2](#), "Summary of Significant Accounting Policies," for additional information.

Income Tax Expense

We recognized income tax expense of \$2.1 million for the three months ended October 29, 2022 compared to an income tax expense of \$1.7 million for the same period in 2021. Our effective income tax rate was (2.3)% for the three months ended October 29, 2022 compared to (1.6)% for the same period in 2021. The change in the effective income tax rate compared to the prior year period was primarily due to an increased amount of pretax loss in the current period, as well as a change in earnings mix.

We recognized income tax expense of \$6.8 million for the nine months ended October 29, 2022 compared to an income tax expense of \$6.1 million for the same period in 2021. Our effective income tax rate was (1.9)% for the nine months ended October 29, 2022 compared to (2.7)% for the same period in 2021. The change in the effective income tax rate compared to the prior year period was primarily due to an increased amount of pretax loss in the current period, as well as a change in earnings mix.

See Part I, Item 1 "Notes to the Condensed Consolidated Financial Statements", [Note 10](#), "Income Taxes," for additional information.

LIQUIDITY AND CAPITAL RESOURCES**Cash, cash equivalents and marketable securities**

	October 29, 2022	October 30, 2021	January 29, 2022
Cash and cash equivalents	\$ 803.8	\$ 1,413.0	\$ 1,271.4
Marketable securities	238.3	—	—
Cash, cash equivalents and marketable securities	<u>\$ 1,042.1</u>	<u>\$ 1,413.0</u>	<u>\$ 1,271.4</u>

Overview

Our principal sources of liquidity are cash from operations, cash on hand, and borrowings from the capital markets, which include our revolving credit facilities. As of October 29, 2022, we had total unrestricted cash and cash equivalents on hand of \$803.8 million, marketable securities of \$238.3 million, and an additional \$319.2 million of available borrowing capacity under our revolving credit facilities. On March 15, 2021, we repaid our outstanding borrowings of \$25.0 million under our then outstanding asset-based revolving credit facility (the "2022 Revolver").

During the nine months ended October 30, 2021, we sold an aggregate of 34,000,000 shares of our common stock under our at-the market equity offering program (the "ATM Transactions"). We generated \$1.67 billion in aggregate net proceeds from sales under the ATM Transactions. The net proceeds generated from sales under the ATM Transactions have been, and are expected to be, used for working capital and general corporate purposes, including repayment of indebtedness, funding our transformation, growth initiatives and product category expansion efforts, and capital expenditures and the satisfaction of our tax withholding obligations upon the vesting of shares of restricted stock held by our executive officers and other employees.

Additionally, during the first quarter of 2021, we repaid the remaining \$73.2 million aggregate principal amount of our then outstanding 2021 Senior Notes and the remaining \$216.4 million aggregate principal amount of our then outstanding 2023 Senior Notes. In the second quarter of 2021, the six separate unsecured term loans held by our French subsidiary, Micromania SAS, for a total of €40.0 million (\$38.7 million as of October 29, 2022) were extended for five years.

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On an ongoing basis, we evaluate and consider certain strategic operating alternatives, including divestitures, restructuring or dissolution of unprofitable business segments, uses for our excess cash in low-risk, short-term investments, as well as equity and debt financing alternatives that we believe may enhance stockholder value. The nature, amount and timing of any strategic operational change, or financing transactions that we might pursue will depend on a variety of factors, including, as of the applicable time, our available cash and liquidity and operating performance; our commitments and obligations; our capital requirements; limitations imposed under our credit arrangements; and overall market conditions.

Many of our vendors have been impacted by volatility in the supply chain financing market. Our vendors have requested and may continue to request credit support collateral for our inventory purchase obligations and the levels of such collateral will depend on a variety of factors including our inventory purchase levels, available payment terms for inventories, availability of borrowing capacity under our credit facilities, favorable credit terms and costs of providing collateral.

Sources of Liquidity; Uses of Capital

We utilize cash generated from operations, cash on hand and short-term liquid investments, 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 fair value and consist primarily of U.S. government bonds and notes, money market funds, cash deposits with commercial banks, and highly rated direct short-term instruments that mature in 90 days or less. Our marketable securities are also carried at fair value and include investments in certain highly-rated short-term government bonds and notes that mature in less than one year. Our investment policy is designed to preserve principal and liquidity of our short-term investments.

In November 2021 we entered into a credit agreement for a secured asset-based credit facility comprised of a \$500 million revolving line of credit which matures in November 2026 ("2026 Revolver"), and includes a \$50 million swing loan revolving sub-facility, a \$50 million Canadian revolving sub-facility, and a \$250 million letter of credit sublimit. As of the end of the third quarter of 2022, based on our borrowing base and amounts reserved for outstanding letters of credit, total effective availability under the 2026 Revolver was \$319.2 million. As of October 29, 2022, no loan amounts were outstanding under the 2026 Revolver and \$130.8 million of standby letters of credit were issued and undrawn under the 2026 Revolver.

Separate from the 2026 Revolver, we maintain uncommitted facilities with certain lenders that provide for the issuance of letters of credit and bank guarantees, at times supported by cash collateral. As of October 29, 2022, we had \$13.4 million of outstanding letters of credit and other bank guarantees under facilities outside of the 2026 Revolver.

Cash Flows

	Nine Months Ended		
	October 29, 2022	October 30, 2021	Change
Cash (used in) provided by operating activities	\$ (230.0)	\$ (324.0)	\$ 94.0
Cash (used in) provided by investing activities	(203.6)	(41.1)	(162.5)
Cash (used in) provided by financing activities	(3.3)	1,203.7	(1,207.0)
Exchange rate effect on cash, cash equivalents and restricted cash	(23.5)	(5.5)	(18.0)
(Decrease) increase in cash, cash equivalents and restricted cash	\$ (460.4)	\$ 833.1	\$ (1,293.5)

Operating Activities

During the nine months ended October 29, 2022, cash flows from operating activities were an outflow of \$230.0 million, compared with an outflow of \$324.0 million during the same period last year. Cash used in operating activities during the nine months ended October 29, 2022 was primarily due to an increase in net loss and the impact of merchandise inventory purchases to support seasonal sales activity. Cash used in operating activities during the nine months ended October 30, 2021 was primarily due to the impact of increased merchandise inventory purchasing as a mitigation response to global supply chain issues and to support our prior year product category expansion.

Investing Activities

Cash flows from investing activities were an outflow of \$203.6 million during the nine months ended October 29, 2022 compared to an outflow of \$41.1 million during the same period last year. Cash used in investing activities during the nine months ended October 29, 2022 was primarily attributable to purchases of marketable securities, technological investments, and investments in two new fulfillment centers, partially offset by proceeds from the sale of digital assets. Cash used in investing activities during the nine months ended October 30, 2021 was primarily attributable to higher capital expenditures.

Financing Activities

Cash flows from financing activities were an outflow of \$3.3 million during the nine months ended October 29, 2022 compared to an inflow of \$1,203.7 million during the comparable prior year period. Cash used in financing activities during the nine months ended October 29, 2022 was primarily attributable to settlement of stock-based awards. Cash provided by financing activities during the nine months ended October 30, 2021 was due to \$1,672.8 million in aggregate net proceeds from the sale of shares of common stock in the ATM Offering, partially offset by the voluntary redemption of our then outstanding 2023 Senior Notes for an aggregate of \$234.2 million (inclusive of a \$17.8 million make-whole premium), settlement of \$136.6 million of stock-based awards, repayment of \$73.2 million to retire at maturity our then outstanding 2021 Senior Notes, repayment of \$25.0 million of our then outstanding borrowing under the 2022 Revolver.

CRITICAL ACCOUNTING POLICIES

Our condensed 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 exclude certain disclosures required under GAAP for complete consolidated 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 condensed consolidated 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 2021 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies from those included in our 2021 Annual Report on Form 10-K.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Item 1 of Part I, "Notes to the Condensed Consolidated Financial Statements", Note 3, "Recently Adopted Accounting Standards" to our condensed 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 condensed consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We had no material off-balance sheet arrangements as of October 29, 2022 other than those disclosed in Part I, Item 1 "Notes to the Condensed Consolidated Financial Statements", [Note 6](#) "Debt" and [Note 7](#) "Commitments and Contingencies" of our condensed consolidated financial statements for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our quantitative and qualitative disclosures about market risk as set forth in Part II, [Item 7A](#) "Quantitative and Qualitative Disclosures About Market Risks" in our 2021 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 Securities Exchange Act of 1934 (the "Exchange Act")) are designed to provide reasonable assurance that required disclosures in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms 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 effective as of October 29, 2022 at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2022, we implemented new enterprise resource planning ("ERP") software, SAP, as part of a plan to integrate and upgrade our systems and processes. Additional implementation activities are expected to continue in phases over the next few years. This project is expected to improve the efficiency and effectiveness of financial and business transaction processes, as well as the underlying systems environment. While we expect SAP to strengthen our internal financial controls, there are inherent risks in implementing any new system. Management will continue to evaluate and monitor our internal controls over financial reporting as processes and procedures in each of the affected areas evolve.

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 third quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The matters described in Part I, Item 1 "Notes to the Condensed Consolidated Financial Statements", [Note 7](#) "Commitments and Contingencies - Legal Proceedings" in this Quarterly Report on Form 10-Q are incorporated by reference.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those set forth below and those described in Part I, [Item 1A](#) "Risk Factors" in our 2021 Annual Report on Form 10-K, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock.

Strategic and Operational Risks Related to Digital Asset Initiatives

Our new digital asset products and services may not achieve our desired results and may expose us to new risks.

In late May 2022, we launched a beta version of a non-custodial digital asset wallet, which allows gamers and other users to manage, send, receive and use cryptocurrencies, non-fungible tokens ("NFTs") and other digital assets across decentralized apps. In July 2022, we launched a beta version of our peer-to-peer NFT marketplace, which allows gamers, creators, collectors and other users to publish, view, buy and sell NFTs, and allows certain creators to mint NFTs on certain decentralized cryptographic protocols. We are also pursuing, and plan to continue to pursue, other business and strategic initiatives associated with digital assets and blockchain technology.

The digital asset economy is highly competitive and rapidly evolving with frequent launches of new or improved products and services, and frequent entry of new competitors in the U.S. and internationally. Engaging in these new initiatives exposes us to a variety of risks, including our ability to successfully develop, obtain or introduce new and improved, competitive, efficient and effective products, systems and processes, attract, maintain and grow our user base, and hire and retain the necessary personnel to support these activities. If and to the extent we are unable to successfully execute these initiatives, we may incur unanticipated costs and losses, and face other adverse consequences, such as negative reputational effects. In addition, the actual effects of pursuing these initiatives may differ, possibly materially, from the benefits that we expect to realize from them, such as the generation of additional revenues.

The launch of our beta versions of a non-custodial digital asset wallet and an NFT marketplace also subjects us to risks similar to those associated with any new product offerings, including, but not limited to, our ability to accurately anticipate market demand and acceptance, creator and buyer acceptance, technical issues with the operation of the products, and legal and regulatory risks as discussed herein.

Digital assets are a novel asset class that carries unique risks, including extreme price volatility.

Cryptocurrencies, digital currencies, coins, tokens, NFTs, stablecoins, and other digital or crypto assets or instruments that are issued and transferred using distributed ledger or blockchain technology (collectively referred to herein as "digital assets") are a new and evolving asset class. The characteristics of particular digital assets within this broad asset class may differ significantly.

We receive payments in digital assets in connection with certain of our digital asset products and services. We also invest, and expect to continue to invest in the future, directly or indirectly, in or through digital assets, which may include, but are not limited to, sales and pre-sales of certain digital assets, whether by token issuance agreements or other methods. There is no guarantee that these investments will maintain their value as measured against fiat currencies. Digital assets continue to be an emerging asset class based on emerging technologies, and investment in digital assets is subject to a number of factors relating to the capabilities and development of blockchain technologies, such as the infancy of their development, their dependence on the internet and other technologies, their dependence on the role played by miners, validators and developers and the potential for malicious activity, among other factors. Further, there can be no assurance that the blockchain technology on which digital assets are transacted does not have undiscovered flaws that may allow for such digital assets to be compromised, resulting in the loss of some or all of our investments in such digital assets. Finally, the intrinsic value of digital assets is particularly uncertain and difficult to determine due to the novel and rapidly changing nature of digital asset markets. There can be no assurance that digital assets will maintain their value in the future, or that acceptance of using digital assets as currency or to make payments by mainstream retail merchants and commercial businesses, or for any other uses, will continue to grow. Moreover, due to the novelty of the asset class and the evolving patchwork of regulatory oversight of digital asset markets, fraud and market manipulation are not uncommon in such markets, all of which could negatively impact the value of our digital asset investments and have an adverse impact on the value of an investment in our business.

We use third parties to custody most of our digital asset investments. The financial institutions, exchanges or other third parties we select to custody our digital assets may become insolvent or subject to cybersecurity attacks, causing us to lose all or a portion of our digital assets held by those custodians. Furthermore, in the event of bankruptcy of such a service provider, our digital assets held by that third party could, depending on the manner in which such assets are held, be considered the property of the bankruptcy estate and we could be treated as a general unsecured creditor in bankruptcy proceedings. Such a result may lead to losses for us and have an adverse impact on our business.

Digital assets may be subject to hacking, social engineering and other cyber attacks, which could subject us to monetary losses, user disputes, reputational harm, and regulatory scrutiny.

Digital products and services are inherently digital and therefore subject to a heightened risk of hacking, cyber attacks and other cybersecurity threats. We have taken certain steps to mitigate against those risks. Despite these efforts, the safeguards we have implemented or may implement in the future to protect against cybersecurity threats may be insufficient to prevent malicious activities, and if our products and services are exploited and our digital assets are stolen, we could experience significant financial harm.

Actual or perceived breaches or cybersecurity attacks directed to other digital asset platforms or services could also create a general loss of customer confidence in the digital asset industry and the use of blockchain technologies, which could negatively impact us.

In addition, our non-custodial digital asset wallet allows gamers and other users to manage, send, receive and use cryptocurrencies and NFTs across decentralized apps. To own, transfer or use a digital asset on its underlying blockchain network, a user must have a private and public key pair associated with a network address, commonly referred to as a “wallet.” Each wallet has a unique public key and private key pair, wherein each key is a string of alphanumeric characters. Digital assets are generally controlled only by the possessor of the unique private key relating to the digital wallet in which the digital assets are held, and such private key must be securely kept private to prevent a third party from accessing the digital assets held in such a wallet. We do not possess or custody private keys or wallet recovery phrases; the users of the wallet are solely responsible for their private keys and wallet recovery phrases. If, however, a private key to a wallet containing digital assets held by a user is stolen, lost, destroyed or otherwise unavailable or compromised, and there is no available backup of the private key, the user will be unable to access the digital assets in the related wallet. Any loss of private keys related to, or a hack or other compromise of, the digital wallets used to manage users’ digital assets could adversely affect the users’ ability to access, transfer or sell their digital assets, and subject us to user disputes, reputational harm, regulatory scrutiny and other losses that could adversely impact our business, operating results and financial condition.

If our systems, the blockchain networks on which our digital asset products and services are offered, or our third party partners fail to perform or are inadequate, we may experience adverse consequences, including financial losses, customer dissatisfaction and reputational harm.

Similar to other aspects of our business, our digital asset products and services are reliant on certain third party partners, including, but not limited to, fiat-to-crypto onramp providers, cloud computing services and data centers. Because we rely on third parties to provide these services and to facilitate certain of our business activities, we face increased operational risks. These third parties may be subject to legal, regulatory, financial, and labor issues, cybersecurity incidents, computer viruses, break-ins, denial-of-service attacks, privacy breaches, sabotage, service terminations, interruptions, disruptions, and other misconduct. They are also vulnerable to damage or interruption from human error, fires, natural disasters (including, but not limited to, floods, earthquakes, hurricanes and tornados), power loss, telecommunications failures, terrorism, vandalism, pandemics (including the COVID-19 pandemic) and similar events. Additionally, these third parties may breach their agreements with us or refuse to continue to renew their agreements on commercially reasonable terms, or at all. There can be no assurances that third parties that provide products or services to us or our users will continue to do so on acceptable terms, or at all. If any of these third parties do not adequately or appropriately provide their services or perform their responsibilities to us or our users, or if such third party partners decide to or are required by law to suspend or shut down products or services that we are relying on, we may be unable to procure alternatives in a timely and efficient manner and on acceptable terms, or at all, and we may be subject to business disruptions, losses or costs to remediate any of the deficiencies, customer dissatisfaction, reputational damage, legal or regulatory proceedings, or other adverse consequences which could harm our business.

In addition, we rely on one or more transaction protocols referred to as “smart contracts,” which include the cryptographic operations that verify and secure transactions, in connection with our digital asset products or services. A smart contract is software that digitally facilitates or enforces a rules-agreement or terms between transacting parties. If the smart contracts fail to behave as expected, suffer cybersecurity attacks or security issues, become obsolete, or encounter other issues, certain transactions may not be completed or erroneously executed, and we and our users may experience significant harm, including irretrievable loss of digital assets.

Peer-to-peer NFT marketplaces create unique risks and challenges related to content moderation and control. If we are unable to navigate these issues, demand for the marketplace could be adversely impacted.

The creator of an NFT will often have, or purport to have, all necessary rights to the content of the NFT and can determine what rights to assign to a buyer, such as the right to display, modify, publicly perform, or copy the content. Risks associated with purchasing or selling items associated with content created by third parties through peer-to-peer transactions, include, among other things, the risk of purchasing counterfeit items or items alleged to be counterfeit, mislabeled items, items that are vulnerable to metadata decay, items on smart contracts with bugs or malware, items related to content that infringes intellectual property rights, and items that may become untransferable, inoperable or obsolete. To the extent we are directly or indirectly involved in a dispute between creators and buyers on our NFT marketplace, it could adversely affect the success of our NFT marketplace and harm our business, operating results, and financial condition.

We may also experience media, legislative, or regulatory scrutiny of our actions or decisions related to our content moderation practices with respect to our NFT marketplace either as a result of our perceived failure to respond expeditiously or appropriately to the sharing of content perceived as objectionable or as a result of our decisions to remove content or suspend participation on our NFT marketplace by persons who violate our content standards and Terms of Service. Any such negative publicity could have an adverse effect on the size, engagement, and loyalty of our user base and demand for our NFT marketplace, which could result in decreased revenue and adversely affect our business, operating results, and financial condition.

Operational Risks

Our implementation of a new ERP system may adversely affect our business and results of operations or the effectiveness of our internal controls over financial reporting.

During the third quarter of 2022, we implemented a new ERP system, SAP, as part of a plan to integrate and upgrade our systems and processes. Additional implementation activities are expected to continue in phases over the next few years. ERP implementations are complex, labor intensive and time-consuming projects and involve substantial expenditures on system software and implementation activities. The ERP system is critical to our ability to provide important information to our management, obtain and deliver products, provide services and customer support, send invoices and track payments, fulfill contractual obligations, accurately maintain books and records, provide accurate, timely and reliable reports on our financial and operating results, and otherwise operate our business. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. Any such implementation involves risks inherent in the conversion to a new computer system, including loss of information and potential disruption to our normal operations. The implementation and maintenance of the new ERP system has required, and will continue to require, the investment of significant financial and human resources, the re-engineering of processes of our business, and the attention of many employees who would otherwise be focused on other aspects of our business. Our results of operations could be adversely affected if we experience time delays or cost overruns during the ERP implementation process, or if we are unable to reap the benefits we expect from the ERP system. Any material deficiencies in the design and implementation of the new ERP system could also result in potentially materially higher costs than we had incurred previously and could adversely affect our ability to operate our business and otherwise negatively impact our financial reporting and internal controls. Any of these consequences could have a material adverse effect on our results of operations and financial condition.

Legal and Regulatory Risk Related to our Digital Asset Initiatives

Our digital asset products and services may expose us to legal, regulatory, and other risks that could adversely affect our business, operating results, and financial condition.

As digital assets are a relatively new and emerging asset class, the regulatory, commercial, and legal framework governing digital assets and associated products and services is likely to evolve both in the U.S. and internationally and implicates issues regarding a range of matters, including, but not limited to, intellectual property rights, consumer protection, privacy and cybersecurity, anti-money laundering ("AML"), sanctions and currency, tax, money transmission, commodity, and securities law compliance. We may need to comply with new licensing or registration requirements, revise our compliance and risk mitigation measures, institute a ban on certain digital assets or transactions thereof, and/or suspend or shut down our products or services in one or more jurisdictions. We may also face substantial costs to operationalize and comply with new legal or regulatory requirements. It is difficult to predict how the legal and regulatory framework and oversight/enforcement infrastructure around digital assets will develop and how such developments will impact our business and these new product offerings since the market for digital assets, and NFTs in particular, is relatively nascent.

Particular digital assets that we support could be deemed securities, and we may be subject to regulatory scrutiny, inquiries, investigations, fines, and other penalties, which may adversely affect our business.

We operate our digital asset-related products and services in a complex and frequently evolving regulatory environment and are subject to a wide range of laws and regulations enacted and enforced by U.S. federal, state, and local and foreign governments and regulatory authorities.

With respect to securities laws, the U.S. Securities and Exchange Commission (“SEC”), U.S. state and foreign government regulators have taken varying positions regarding whether certain digital assets fall within the definition of a “security” under U.S. federal, state or foreign securities laws, respectively. The determination as to whether a digital asset is a security is a fact-driven analysis and the outcome may be difficult to predict. Also, securities laws and regulations are constantly evolving. Accordingly, the SEC or U.S. state or foreign government regulators could take the position that certain digital assets we support through our digital asset-based products or services are deemed “securities” under its definition and interpretation. We have policies and procedures in place that are intended to enable us to make a reasonable, risk-based assessment regarding the likelihood that a particular digital asset could be deemed a security under applicable laws. These policies and procedures are not legal determinations as to whether any particular digital asset is a security under federal securities laws. However, the application of securities laws to the specific facts and circumstances of digital assets is complex and subject to change, and it is possible that regulators may disagree with our conclusions. There is no certainty that any digital assets are not securities, notwithstanding the conclusions drawn based on our risk-based assessment. We could be subject to legal or regulatory action in the event a regulatory authority or court were to determine that a digital asset offered, sold or traded on our non-custodial digital asset wallet product or NFT marketplace is a security under applicable laws, which could have an adverse impact on our business. Furthermore, to the extent that any of the digital assets we support are deemed securities, we may be required to register as a broker-dealer and/or national securities exchange with the SEC and/or foreign regulatory counterpart, or rely on an available exemption from registration.

Law enforcement and regulators may initiate investigations or litigation related to our digital asset investments, products or services.

New or revised regulations or policies affecting digital assets and blockchain technology, or new interpretations of existing laws and regulations by governmental and regulatory bodies in respect of digital assets and blockchain technology could have substantial and adverse effect on our digital asset investments, products or services. As such, we could in the future be subject to inquiries or investigations from regulators and governmental authorities, be required to divest our digital asset holdings, make product changes, restrict or discontinue product offerings, including our users’ acquisition, use or redemption of certain digital assets, and be required to implement additional and potentially costly controls. In addition, if we expand our digital asset business to new products and services, we could come under the jurisdiction of additional regulators, both with respect to jurisdiction and subject matter. Any failure or perceived failure to comply with existing or new laws, regulations, or orders of any governmental authority (including changes to or expansion of the interpretation of those laws, regulations, or orders), including those discussed in these risk factors, may (i) subject us to significant fines, penalties, criminal and civil lawsuits, enforcement proceedings, and forfeiture of significant assets, (ii) result in additional compliance and licensure requirements, increased regulatory scrutiny of our business and restrictions of our operations, and (iii) force us to modify our business practices, make product or operational changes, and/or delay planned product launches or improvements. We currently maintain policies and procedures designed to reasonably help ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations.

Violations of law by third parties using our digital asset products or services could expose us to litigation risk and negatively impact our reputation.

We have no control over the third parties utilizing our digital asset products or services, such as digital gaming and entertainment developers and other NFT creators and sellers. Any failure or perceived failure by such third parties to comply with existing civil and criminal laws and regulations, including, but not limited to, anti-fraud and anti-financial crime laws, may also subject us to significant reputational and litigation risks, including criminal and civil lawsuits. We require third parties using our digital products or services to confirm that their digital asset activities will comply with all applicable laws and regulations in connection with their use of our digital products or services, but there can be no assurance that these third parties will do so.

Future developments regarding the treatment of digital assets under U.S. and foreign tax laws could adversely impact our business.

Current tax rules related to digital assets are in some instances unclear and require significant judgments to be made in interpretation of the law, including but not limited to the areas of income tax, information reporting, transaction level taxes and the withholding of tax at source. Additional legislation or guidance may be issued by U.S. and non-U.S. governing bodies that may differ significantly from our practices or interpretation of the law, which could have unforeseen effects on our financial condition and results of operations.

Our digital asset products and services require compliance with anti-money laundering and sanctions laws and regulations.

We comply with laws and regulations related to U.S. AML and counter-terrorist financing (“CTF”) laws and regulations, enforced by FinCEN, and economic sanctions enforced by the U.S. Department of Treasury’s Office of Foreign Assets Control (“OFAC”) in connection with our digital asset products and services. U.S. sanctions laws and regulations generally restrict dealings by persons subject to U.S. jurisdiction with certain jurisdictions that are the target of comprehensive embargoes, as well as with persons, entities, and governments identified on certain prohibited party lists. We have an OFAC compliance program in place that includes monitoring of IP addresses to identify prohibited jurisdictions and of digital wallet addresses that have either been identified by OFAC as prohibited or that otherwise are believed by us to be associated with prohibited persons or jurisdictions. Regardless, there can be no guarantee that our compliance program will prevent transactions with particular persons or addresses or prevent every potential violation of OFAC sanctions. Any present or future government inquiries relating to sanctions could result in negative consequences for us, including costs related to government investigations, financial penalties, and harm to our reputation. Further, new or revised U.S. or foreign AML, CTF or sanctions laws and regulations could require us to invest substantially in new compliance measures and that may require significant retroactive compliance efforts that could adversely affect our financial position, as well as give rise to liabilities based on our compliance program.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On May 26, 2021, we received a request from the Staff of the SEC for the voluntary production of documents and information concerning an SEC investigation into the trading activity in our securities and the securities of other companies. On August 25, 2021, the SEC issued a subpoena calling for additional documents, as a follow up to the initial request. We have completed production of the requested documents and have been and intend to continue cooperating fully with the SEC Staff regarding this matter. This inquiry is not expected to adversely impact us.

[Table of Contents](#)**ITEM 6. EXHIBITS**

Exhibit Number	Description	Previously Filed as an Exhibit to and Incorporated by Reference From	Date Filed
3.1	Third Amended and Restated Certificate of Incorporation.	Quarterly Report on Form 10-Q for the fiscal quarter ended August 3, 2013	September 11, 2013
3.2	Certificate of Amendment of the Third Amended and Restated Certificate of Incorporation.	Current Report on Form 8-K	June 3, 2022
3.3	Fifth Amended and Restated Bylaws.	Current Report on Form 8-K	March 6, 2017
10.1	Amendment #1 to Immutable X Protocol Services and License Agreement.	Filed herewith.	
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.	Submitted electronically herewith.	
101.SCH	Inline XBRL Taxonomy Extension Schema	Submitted electronically herewith.	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	Submitted electronically herewith.	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	Submitted electronically herewith.	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	Submitted electronically herewith.	
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).	Submitted electronically herewith.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GAMESTOP CORP.

Date: December 7, 2022

By: /s/ Diana Saadeh-Jajeh
Diana Saadeh-Jajeh
Chief Financial Officer

Amendment #1 to Immutable X Protocol Services and License Agreement

1. Important Information

1.1 This is a legally binding agreement between GME Entertainment, LLC, a Delaware limited liability company (**'Licensee'**, **'you,' 'your'**) and Immutable X Pty Ltd ACN 644 717 840 (**"Immutable X"**, **"Immutable"**, **"us"**), an Australian company (the **"Amendment 1"**). Licensee and Immutable, each a **"Party"** and, collectively, the **"Parties."**

1.2 The Parties entered that certain Immutable X Protocol Services and License Agreement dated as of January 27, 2022 (the **"Agreement"**), to govern the use by Licensee of the Protocol (as defined in the Agreement).

1.3 The Parties wish to amend the Agreement to clarify that the parties original intent was that all Primary Fees and Secondary Fees will be the obligation of and paid by customers and end users of Licensee's NFT marketplace automatically as part of use of the Protocol and not the obligation of, or paid directly by, Licensee.

1.4 For valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Parties hereby agree to the following.

2. Amendments

2.1 Section 8.1 of the Agreement is hereby amended and restated in its entirety to read as follows:

"Primary Sales Fees shall be paid by the applicable customer of Immutable as set forth in the primary sales agreement between Immutable and such customer, and Trading Fees shall be paid by end-users of Licensee's NFT marketplace. Licensee shall ensure that end users of Licensee's NFT Platform are notified of such fees to be paid to Immutable for use of the Protocol. Neither Licensee nor any of the end-users of Licensee's NFT Platform shall be responsible for paying any other fees to Immutable or any other party for transactions occurring off Licensee's Platform. The Primary Sales Fees and Trading Fees are set forth in Exhibit A."

2.2 The penultimate sentence included in Exhibit A of the Agreement is hereby amended and restated in its entirety to read as follows:

"The above represents the only fees charged by Immutable X to the end-users of the Licensee's Platform to use the Immutable X Protocol."

3. MISC

3.1 Jurisdiction. These terms must be construed, and its provisions interpreted under and in accordance with the laws of the State of Delaware. The parties submit to the exclusive jurisdiction of the Courts of Delaware, including any appellate Courts thereof for any claims not subject to arbitration under the Agreement. The United Nations Convention on Contracts for the International Sale of Goods will not apply.

3.2 Entire Agreement. This Amendment 1, together with the Agreement, constitute the entire agreement between the Licensee and Immutable in relation to its subject matter and supersedes all previous and contemporaneous understandings between the parties in relation to its subject matter.

3.3 Amendments. Except for the amendments set forth in Section 2 of this Amendment 1, the Agreement shall continue in full force and effect. The Parties agree that all obligations under, and as defined in, the Agreement shall remain outstanding, shall constitute continuing obligations, and this Amendment 1 shall not be deemed evidence or result in a novation of such obligations and liabilities.

Executed by Immutable X Pty Ltd
by its authorised representative:

May 31, 2022

Dated

/s/ Robbie Ferguson

Signature

Robbie Ferguson, Director

Name and capacity

Executed by GME Entertainment, LLC
by its authorized representative:

May 30, 2022

Dated

/s/ Mark Robinson

Signature

Mark Robinson, General Counsel

Name and capacity

**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, Matthew Furlong, 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.

Date: December 7, 2022

By: /s/ Matthew Furlong
Matthew Furlong
Chief Executive Officer
GameStop Corp.

**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, Diana Saadeh-Jajeh, 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.

Date: December 7, 2022

By: /s/ Diana Saadeh-Jajeh
Diana Saadeh-Jajeh
Chief Financial Officer
GameStop Corp.

**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 October 29, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew Furlong, 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.

Date: December 7, 2022

By: /s/ Matthew Furlong

Matthew Furlong
Chief Executive Officer
GameStop Corp.

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 October 29, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Diana Saadeh-Jajeh, 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.

Date: December 7, 2022

By: /s/ Diana Saadeh-Jajeh

Diana Saadeh-Jajeh
Chief Financial Officer
GameStop Corp.

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.