ARE YOU GAME?

ELECTRONICS BOUTIQUE ANNUAL REPORT: 2001

electronics boutique

START

Walk into any of our 761 Electronics Boutique stores worldwide and you'll immediately recognize our top priority... you. From our first mall kiosk to more than $766 million in annual sales, these past 24 years have meant working hard to win the loyalty of our customers and build one of the most recognizable and trusted names in the interactive gaming industry.

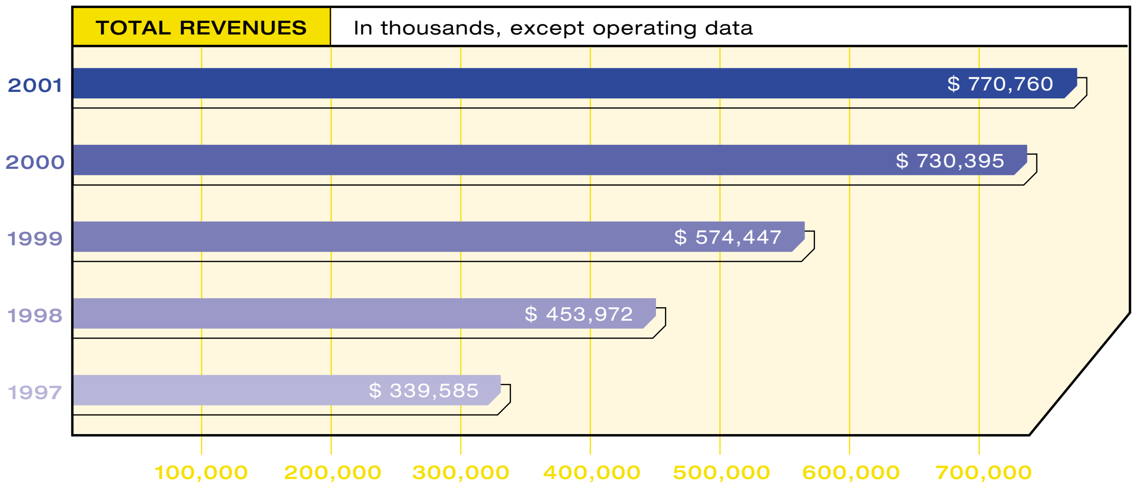
We specialize in sales of video game hardware and software, PC entertainment with related accessories and toys at our Electronics Boutique stores. We're not selling linens over on aisle five or a lawnmower in the garden section out back. No, the object of the game for us is very defined, and that's knowing what new releases our customers will want tomorrow and having the correct mix of product on our shelves when they walk in. It's a game we're very accustomed to winning.

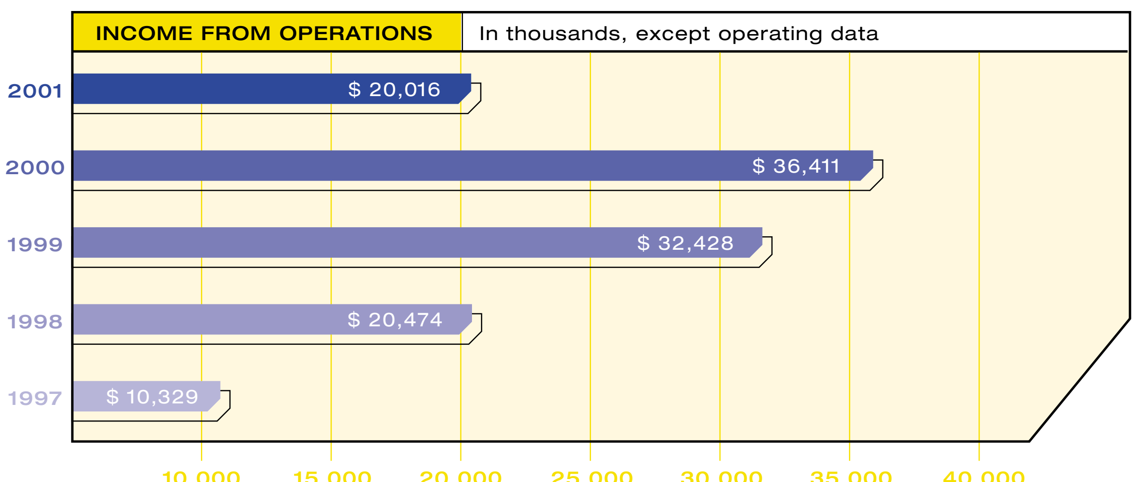
So tell us, are you game or what? We're inviting you to take a look inside, to learn about the values and strategies we employ in reaching the ultimate level - satisfied customers served through the most efficient business model possible. Just turn the page to start.

OBJECT OF THE GAME

FINANCIAL HIGHLIGHTS

Electronics Boutique ends each fiscal year on the Saturday nearest to the last day of January. Thus "Fiscal 2001" referred to in this report ended on February 3, 2001. "Fiscal 2000" ended on January 29, 2000 and "Fiscal 2002" will end on February 2, 2002.





OPERATING DATA:	1997	1998	1999	2000	2001
Stores open at end of period	360	452	528	619	737
Comparable store sales	20.8%	15.3%	14.1%	11.6%	(4.5%)

BALANCE SHEET DATA:	02/01/1997	01/31/1998	01/30/1999	01/29/2000	02/03/2001
Total assets	$ 139,244	$ 142,791	$ 172,047	$ 275,513	$ 267,239
Total liabilities	$ 118,887	$ 114,392	$ 123,205	$ 159,026	$ 136,019
Stockholders' equity	$ 20,357	$ 28,399	$ 48,842	$ 116,487	$ 131,220

HERE'S THE CHALLENGE

A LETTER TO OUR SHAREHOLDERS:

Fiscal 2001 saw us strengthen our dominant worldwide position as one of the world's leading specialty retailers in the interactive game industry. We increased market share, implemented new cost saving systems, expanded our store base and created new sales channels. We are particularly proud of these achievements during what was largely a transition year for our industry. With the only new hardware system in short supply and no dominant must-have software title, this past year did not treat kindly companies that lacked superior inventory control and a loyal customer base. We, however, emerged with a stronger competitive position and proved yet again that Electronics Boutique is the retailer of choice for avid gamers. Fiscal 2002 is shaping up to be one of the most active years of new system launches in history and we're prepared to reap the benefits... are you game to join us?

Calendar 2000 was expected to be a phenomenal year for Sony® PlayStation® 2 (PS2), but things didn't go exactly according to plan. Consumer demand for the PS2, the next generation of the most popular video game system in the world, grew to an unprecedented level. Sony was unable to meet initial demand and our sales suffered accordingly.

The significant shortage of PS2 systems and the corresponding lack of demand for older generation systems certainly had a negative impact on our financial results for fiscal 2001. However, we believe the delayed rollout of PS2 didn't mean lost sales, but rather just delayed sales and we expect continued strength in the PS2 platform to be a significant contributor to our fiscal 2002 sales.

JAMES J. KIM, Chairman of the Board

Industry leading inventory control, a passionate, knowledgeable sales force and a loyal customer base of avid gamers all combine to give us a competitive edge. It's no surprise that each of these core values played an integral role in the success and milestones we achieved this past year.

- We've created an integrated system for managing our inventory that encompasses online daily inventory tracking at the individual store level to a distribution network that can better forecast store needs. We opened regional headquarters and centralized distribution centers in both Canada and Australia, as well as a new distribution center in Louisville, KY – that's an additional 390,000 square feet of capacity to our distribution network. We installed two new supply-chain software systems to manage inventory through our warehouses. We're already seeing savings in inventory, freight and handling charges, for example inventory levels following the holiday season were 10% lower than the previous year.

- Our Sales Associates are passionate gamers themselves, so they connect with our customers. Take the PS2 system, for example. Our sales staff sold an average of over three software titles and two accessories for each piece of hardware, outpacing the industry tie ratio average of 2.5 games and 1.5 accessories.

- Our target customers are avid gamers, consumers buying 15 software titles a year for all major systems, including new products the day they're released. Our inventory management enables us to effectively serve our customers and affords us a "favored" status when it comes time for manufacturers to assign allocations of new products. Manufacturers know that products fly off our shelves quickly after they're released.

At the end of the day, our success is not defined by a product's popularity, but by our execution in getting the product into our customers' hands. Our financial results and shareholder value are based on this principal and we continually strive to enhance every step in the process.

Industry leading inventory control, a passionate, knowledgeable sales force and a loyal customer base of avid gamers all combine to give us a competitive edge.

– Joseph J. Firestone
President & CEO

Fiscal 2001 net income totaled $14.9 million, or $0.66 per diluted share, compared with net income of $22.8 million, or $1.10 per diluted share, earned in fiscal 2000. Total revenues for the 53 weeks in fiscal 2001 were $770.8 million, compared with $730.4 million for the 52 weeks ended January 29, 2000. Last year was tough for everyone in the industry including us, which is evident in our 4.5% decline in comparable store sales. This is largely the result of the lack of PS2 hardware this year, compared with the previous year that included a highly successful launch of Sega's Dreamcast™ and the wildly popular Pokemon™ trading card series.

LOOKING AHEAD

We're excited about the coming year and the huge buzz surrounding several highly anticipated systems and titles, including Diablo II Lord of Destruction and Warcraft III. Both Diablo II and Warcraft II were major hits with PC gamers, with the former selling more than 1.5 million games worldwide, compared with a more typical 5,800 games for the average software title. Nintendo® has its highly anticipated Game Boy® Advance launch expected in June, followed closely by its Game Cube™ launch in the fall. Microsoft® is slated to make its widely talked-about entry into the interactive game sector in the fall of 2001 with the Xbox™.

EBgames.com, our newly re-branded e-commerce site, has been a very successful additional sales channel for us. Fiscal 2001 sales at EBgames.com nearly doubled to $25.0 million compared with $14.1 million in fiscal 2000. EBgames.com is developing partnerships that will move EB to the forefront of the movement to offer games on demand over broadband connections.

We met our fiscal 2001 new store goal by opening 118 net new locations. In the coming year, we're looking to open as many as 175 stores, 65 of which are expected to be our new EB GameWorld store concept. EB GameWorld stores are located in strip malls, as opposed to our traditional regional mall locations, and specialize in the pre-owned segment. Consistent with the pre-owned strategy, EB GameWorld stores have a much lower cost structure, lower total sales and higher margins than our core Electronics Boutique stores.

There's no question that fiscal 2001 was a very challenging year for the industry and we are satisfied with our performance. We demonstrated that Electronics Boutique is up to the challenge of producing solid profits in a tough environment. We continued to grow the franchise and are at the top of our game as we move into the new year.

We'd like to take this opportunity to thank all of our associates for their commitment to making EB the best interactive game retailer on the planet, our customers for their loyalty and our stockholders for your continued support. We challenge and encourage you to learn more about our values and operations by playing along the remainder of this annual report and we look forward to updating you on our achievements throughout the coming year.

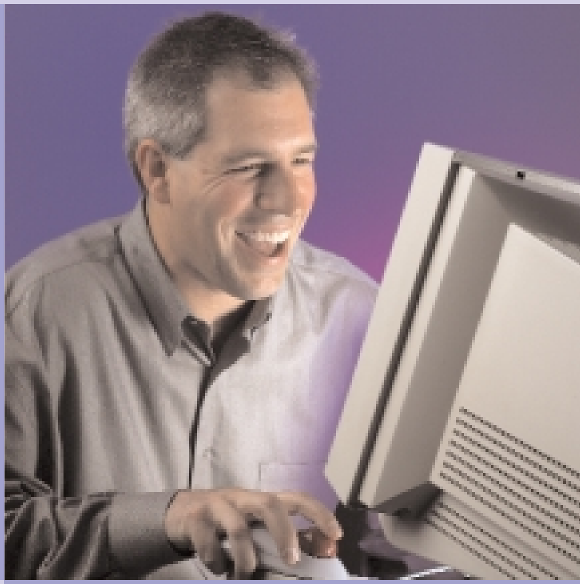
JAMES J. KIM, Chairman of the Board

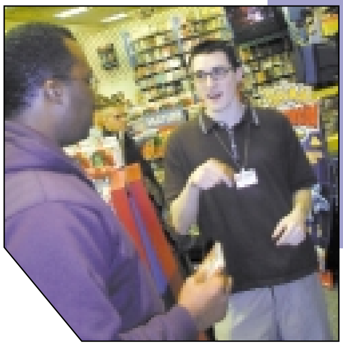
JOSEPH J. FIRESTONE, President & CEO

LEVEL 01

MISSION: To secure knowledgeable and passionate Sales Associates who share our "customer comes first" value

Sales Associates and our customers share a passion and this connection translates directly to our bottom line.





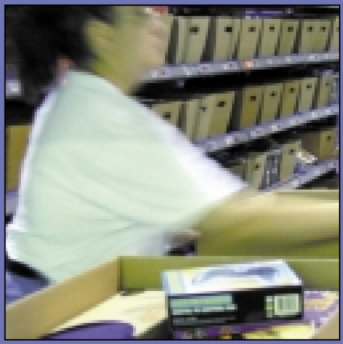
First and foremost, Electronics Boutique is a customer-focused organization. That means everyone from the Chairman to the newest Sales Associate must share our "customer comes first" corporate value. This principle is simple in theory but quite challenging to implement, especially when you're talking about a company with 761 stores and more than 5,000 employees. As we've grown, we've been able to actually increase our reputation for having the most knowledgeable and helpful Sales Associates in the business. We're successful because we use consistent hiring practices, offer comprehensive training and provide an exciting work environment.

Our target customer is the avid gamer and meeting the needs of this customer is an important component of our business strategy. The typical profile of an avid gamer? Male, between the ages of 15 and 35, purchases more than 15 games per year for multiple hardware systems such as a PlayStation®, PlayStation® 2, Dreamcast™ and Nintendo® 64. He's considered an opinion leader, influencing buying decisions of friends, family and neighbors. Another important characteristic of the avid gamer is that he is often playing the "expert" level of the video/PC games he purchases.

To effectively serve and connect with these avid gamers, our Sales Associates must not only have respect as credible sources of information, but must also relate to the rush of playing the PS2 for the first time or the excitement of reaching the next level of, say, Final Fantasy IX. Technology is always evolving and to help them stay out in front of the curve, our store managers receive extensive on-going training on video game systems and PC entertainment software. They also attend an annual multi-day training program called EB University, which succeeds in making "back-to-school" cool.

Our Sales Associates love to talk game strategies and discuss new technologies – they're typical card-carrying members of the video game culture. It's a passion they share with our customers and that connection translates directly to our bottom line. In fiscal 2001, on average we sold 32 pieces of software for each piece of hardware, compared to the industry average of 12. Software carries much higher margins than hardware and it would be impossible to achieve these strong results if our customers didn't trust and respect our Sales Associates.

GOAL ATTAINED	Customers Satisfied – on to the next level.



Customers entering our stores to get the latest game or pick up a pre-ordered system strut with confidence. Why? Because they know they'll find the product they want. We're known for having hot new titles in stock, not the empty shelves and rainchecks common among our competitors. Our 24 years of experience has resulted in an inventory management and distribution system that meets the daunting challenge of predicting today what someone will want tomorrow... and then delivering it.

Approximately 20 new game titles are released weekly, so having the correct mix of product in our stores or online is approached as a science. A shotgun approach to inventory management or waiting on the sidelines to see what titles are the latest must-haves would mean stores out of stock on Madden NFL™ 2001 and overflowing with Triple Play 2000.

It begins with knowing the market and our customers. That's our competitive edge, one that can't simply be bought from a software manufacturer. Sure, we have forecasting tools to help our purchase decisions, like SCORE®, our newly installed inventory software system that takes into account store sales, similar product sales, volume, store size and other variables. But no artificial intelligence can outweigh decades of hands-on, market experience. Trends come and go, and we have an innate sense of how to get in front of them.

Distribution is the next step. We significantly improved our distribution network this past year by installing Logistics Pro®, a software package that increases the efficiency of moving product to our stores. To support growth in burgeoning international markets, we opened distribution facilities in Canada and Australia, totaling 120,000 square feet and 70,000 square feet, respectively. Our new 200,000 square foot distribution facility in Louisville, KY, is strategically located within an overnight shipment of the majority of our stores. Our new warehouse management system means next-level efficiency and growth that's effectively managed.

We're committed to this process because to maximize profits, you have to maximize inventory turn. And the process works: In certain situations a game can move through our entire system – from manufacturer to customer – within 12 hours. On average we complete the cycle within 24 hours. The process continually evolves as we embrace new technologies and strive to perfect the techniques of delivering the right product to the right place at the right time.

GOAL ATTAINED	A winning mix of products on the shelves – on to the next level.

LEVEL 02

MISSION: Superior Inventory Management

It's about delivering the right product to the right place at the right time.

LEVEL 03

MISSION: Assemble Highly Experienced Management Team

It takes a visionary management team to turn a good idea into a profitable company. It takes a knowledgeable management team to grow a profitable company into one of the leading companies in its sector. And it takes an experienced management team to push the boundaries for a leading company without compromising all the attributes that made it successful in the first place. We get that. It's not by chance that Electronics Boutique has increased revenues by a growth rate in excess of 23% over the last five years while maintaining strong profitability .

The six members of our senior management team have an average of 25 years of retail experience and an average of 8.5 years with Electronics Boutique. It all adds up to one of the most experienced and respected management teams in the industry.

Like Joseph Firestone, who's guided the strategic direction of Electronics Boutique as President and Chief Executive Officer since 1984. Joseph is a highly respected member of the retail community, serving on the board of directors for the National Retail Federation and as a member of the University of Florida's Executive Advisory Board for the Center for Retailing Education and Research. During his 17 years at the helm of Electronics Boutique, sales have grown from $14 million to $766 million.

There's no question that a large part of our success is attributable to a management team characterized by tremendous depth and a willingness to step up to new challenges. Jeff Griffiths, Senior Vice President of Merchandising and Distribution, began his career at Electronics Boutique in 1984 as a merchandising manager. Our Chief Financial Officer John Panichello joined the company seven years ago as Treasurer. Today, he's leading the charge of EB GameWorld and is President of BC Sports Collectibles. Senior Vice President of Finance Jim Smith brought 14 years of experience from a superstore toy retailer when he joined the company in 1993 as our Controller. He currently oversees financial reporting and control as well as investor relations. Seth Levy joined Electronics Boutique in 1997

FROM LEFT TO RIGHT:
Jerry Madaio, Pete Roithmayr, Barbara Foster, John Panichello, Joseph Firestone, Seth Levy, Jim Smith, Jim Madden, Jeff Griffiths, Steve Morgan

as the Chief Information Officer following six years as the Director of System Development for an arm of the May Department Stores. Today, Seth is also President of EBWorld, our separate new media division.

Part of extending our leadership is continuing to attract the best talent the retail sector has to offer. This past year we welcomed Steve Morgan into the fold. Steve started his retail career in an executive training program in 1974 and hasn't looked back, rising through the ranks of major department store outfits such as Abraham & Strauss, May Department Store and Filene's. As Senior Vice President of Stores, Steve is responsible for management and oversight of the operations of all EB, EBX & EBKids stores within the United States and Canada.

We're proud to lay claim to a dedicated management team with proven ability to develop and execute a winning strategy.

GOAL ATTAINED	Innovative management team leading the way and improving shareholder value – on to the next level.



In a market characterized by product allocations and tight demand, meeting customers' expectations is not always solely in our control. We work extremely hard to make sure a satisfied customer walks out of our store, because that's the best way to ensure that he or she returns.

Want an example of our commitment to first-rate customer service? Just look at our performance with the PS2 system. Pre-release demand for the PS2 was at frenzied levels. After all, gamers had waited five years for the next generation follow-up to the PlayStation® and demand outpaced supply. We actually pre-sold more than 100,000 PS2 units in one week. Here's some perspective: Our most successful pre-sell prior to the PS2 – Sega's Dreamcast one year earlier – took four months to pre-sell 80,000 units.

As the October launch date for the PS2 loomed, it became apparent that Sony wouldn't have nearly enough units in the marketplace to fulfill the pre-sell totals, not to mention walk-in demand. During this situation, our efficient inventory management really enabled us to shine. Our strong relationship with Sony secured a solid allocation for us in the initial shipment and kept us at the forefront as additional units became available. Once we had PS2s in our distribution network, we immediately shipped them out to the appropriate stores to satisfy pre-orders. That meant each customer that pre-ordered with us was enjoying his or her PS2 during the holidays. More importantly, we sold the units to our customers gimmick-free – not automatically bundled with software and accessories – for the listed price.

GOAL ATTAINED	PS2 in hand, customer commitments met – on to the next level.

LEVEL 04

MISSION: Manage Customers' Expectations

Expending every effort to ensure that a satisfied customer walks out of our store.

LEVEL 05

MISSION: Stay at the Forefront of Change & Extend Leadership

To an investor, customer, associate or partner, one of the most exciting elements of the Electronics Boutique story is our ability to identify new opportunities and execute on them. In our position as one of the industry's Top Guns, we're always striving to grow and improve. That's what makes the game fun and challenging, finding new and better ways to achieve our goals.

Fiscal 2002 is shaping up to be a very exciting year for our industry. Demand for PS2 will likely continue throughout the year and this fall we expect to see the Nintendo Game Cube, Nintendo's follow-up to the N64 system. Technology powerhouse Microsoft is scheduled to throw its formidable hat in the ring with the Xbox, its first video game hardware offering. There's also huge anticipation surrounding the next generation Game Boy®, Game Boy Advance, slated for June 2001 introduction. The hand-held Game Boy franchise has been very solid since its first product in 1989 and we're expecting large demand for this new release.

An exciting and intriguing unknown for our industry is how the growth of broadband access will enhance the number of ways video and PC games can be played and sold in the coming years. Broadband Internet connections make it possible to quickly download large amounts of information in short periods of time. Today, the technology exists to play games on demand. Electronics Boutique is taking the lead in building partnerships with broadband providers through our Internet arm, EBgames.com. Regardless of the change in medium, game developers will continue to sell their wares, and we aim to get – and keep – our share of the revenue.

Of course, our growth objectives aren't all based on futuristic technology. After all, we're retailers and we're the best at what we do. And for all the convenience and ease online shopping offers, consumers still like the social activity of leaving their homes to shop. They crave human interaction and that's one of our strengths. Add that to the continued expansion of our store base with an expected 175 new locations in fiscal 2002, including 11 of our "G-rated" EBKids stores, as well as 65 of our newest store concept, EB GameWorld. The latter specializes in the growing pre-owned segment of the industry and gives us a significant opportunity to further expand our customer base.

So here's what we're armed with: A strong balance sheet with over $45 million in cash to fund our growth objectives, a passionate sales force of expert gamers and an innovative management team. We are one of the leading specialty retailers in an industry that is quickly growing stronger and bigger.

GOAL NOT YET ATTAINED	The game is far from over – it is only just begun.

Solid ideas, aggressive goals, vigorous growth plans — indeed, our future looks bright.

FINANCIAL TABLE OF CONTENTS

Financial Highlights

Selected Consolidated Financial Data

The following table sets forth for the periods indicated selected financial data for Electronics Boutique for periods subsequent to its initial public offering on July 28, 1998. Prior periods reflect financial data of Electronics Boutique's predecessors, The Electronics Boutique, Inc. ("EB") and subsidiaries and EB Services Company LLP. The selected income statement and balance sheet items, which follow, have been derived from Electronics Boutique's consolidated financial statements. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Consolidated Financial Statements and Notes" thereto included elsewhere in this Annual Report. The pro forma data, in the opinion of management, include all adjustments necessary to present fairly the information set forth therein including the matters referred to in footnotes 3 and 4 on page 18.

(in thousands, except per share data and operating data)

	Year Ended				
	February 1, 1997	**January 31, 1998**	**January 30, 1999**	**January 29, 2000**	**February 3, 2001**
Statement of Income Data:					
Net sales	$ 337,059	$ 449,180	$ 571,042	$ 725,522	$ 766,335
Management fees	2,526	4,792	3,405	4,873	4,425
Total revenues	339,585	453,972	574,447	730,395	770,760
Cost of goods sold	252,813	338,498	432,272	548,172	590,423
Gross profit	86,772	115,474	142,175	182,223	180,337
Operating expenses	69,828	87,003	99,972	133,534	144,466
Depreciation and amortization	6,615	7,997	9,775	12,278	15,855
Income from operations	10,329	20,474	32,428	36,411	20,016
Equity in earnings (loss) of affiliates	(573)	2,903	(161)	-	-
Other income	-	-	-	-	1,550
Interest (income) expense, net	1,298	1,380	289	(1,427)	(3,096)
Preacquisition loss of subsidiaries (1)	-	913	-	-	-
Income before income tax expense	8,458	22,910	31,978	37,838	24,662
Income tax expense (2)	550	846	11,693	15,008	9,791
Net income	$ 7,908	$ 22,064	$ 20,285	$ 22,830	$ 14,871
Net income per share – basic				$ 1.11	$ 0.67
Weighted average shares outstanding- basic				20,559	22,254
Net income per share – diluted				$ 1.10	$ 0.66
Weighted average shares outstanding – diluted				20,762	22,466
Pro forma Income Data:					
Income before income taxes	$ 8,458	$ 22,910	$ 31,978		
Pro forma income taxes (3)	3,514	9,415	11,866		
Pro forma net income (3)	$ 4,944	$ 13,495	$ 20,112		
Pro forma net income per share – basic	$ 0.31	$ 0.85	$ 1.12		
Pro forma weighted average shares outstanding – basic (4)	15,794	15,794	18,030		
Pro forma net income per share – diluted	$ 0.31	$ 0.85	$ 1.11		
Pro forma weighted average shares outstanding – diluted (4)	15,794	15,794	18,084		
Operating Data: (5)					
Stores open at end of period	360	452	528	619	737
Comparable store sales (6)	20.8%	15.3%	14.1%	11.6%	(4.5%)

	As of				
	February 1, 1997	January 31, 1998	January 30, 1999	January 29, 2000	February 3, 2001
Balance Sheet Data:					
Working capital (deficit)	$ 9,893	$ (17,728)	$ (3,091)	$ 42,567	$ 30,133
Total assets	139,244	142,791	172,047	275,513	267,239
Total liabilities	118,887	114,392	123,205	159,026	136,019
Stockholders' equity	20,357	28,399	48,842	116,487	131,220

(1) The results of operations of two subsidiaries, Electronics Boutique International, Inc. and Electronics Boutique Canada, Inc. have been consolidated since the beginning of the year ended January 31, 1998. Preacquisition loss of subsidiaries represents losses in Electronics Boutique International, Inc. and Electronics Boutique Canada, Inc. prior to their acquisition by Electronics Boutique.

(2) Prior to our initial public offering, our predecessors were taxed as an S Corporation and a partnership. As a result, their taxable income was passed through to their partners and shareholders for federal income tax purposes. Accordingly, for periods prior to the initial public offering on July 28, 1998, the financial statements do not include a provision for federal income taxes. Additionally, a predecessor to us elected to be treated as an S Corporation for some states, while remaining subject to corporate tax in other states and, as a result, the financial statements prior to July 28, 1998, provide for certain state income taxes. After the initial public offering, both federal and state taxes as a C Corporation have been reflected.

(3) The pro forma net income gives effect to the application of the pro forma income tax expense that would have been reported had The Electronics Boutique, Inc. and EB Services, LLP been subject to federal and all state income taxes for fiscal years 1997, 1998 and 1999.

(4) Pro forma weighted average shares outstanding gives effect to the number of shares that would have been outstanding upon completion of the initial public offering and related transactions for periods prior to the initial public offering.

(5) Does not reflect stores operated by EB-UK and Waldensoftware for which we provide management services. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview"

(6) Comparable store sales are based on stores in operation for over one year. Comparable store sales results for fiscal 2001 represents the 52 week period ending January 27, 2001.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We believe that we are among the world's largest specialty retailers of electronic games. Our primary products are video games and PC entertainment software, supported by the sale of video game hardware, PC productivity software and accessories. As of February 3, 2001, we operated a total of 737 stores in 46 states, Puerto Rico, Canada, New Zealand, Australia and South Korea, primarily under the names Electronics Boutique, EB GameWorld and Stop 'N Save Software and EB Kids. In addition, we operated a commercial web site under the URL address of EBgames.com. As of such date, we also provided management services for EB-UK, which operated over 300 stores and department store-based concessions in the United Kingdom, Sweden and Ireland. We are a holding company and do not have any significant assets or liabilities, other than all of the outstanding capital stock of our subsidiaries.

The fiscal year of Electronics Boutique ends on the Saturday nearest January 31. Accordingly the financial statements for the years ended January 30, 1999 ("fiscal 1999") and January 29, 2000 ("fiscal 2000") each include 52 weeks of operations and the year ending February 3, 2001 ("fiscal 2001") includes 53 weeks of operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(continued)*

Results of Operations

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

	Year Ended		
	January 30, 1999	January 29, 2000	February 3, 2001
Net sales	99.4 %	99.3 %	99.4 %
Management fees	0.6	0.7	0.6
Total revenues	100.0	100.0	100.0
Cost of goods sold	75.3	75.0	76.6
Gross profit	24.7	25.0	23.4
Operating expenses	17.4	18.3	18.7
Depreciation and amortization	1.7	1.7	2.1
Income from operations	5.6	5.0	2.6
Other income	-	-	0.2
Interest expense (income), net	0.1	(0.2)	(0.4)
Income before income tax expense	5.5	5.2	3.2
Income tax expense	2.0	2.1	1.3
Net income	3.5 %	3.1 %	1.9 %

Fiscal 2001 Compared to Fiscal 2000

Net sales (including shipping and handling fees) increased by 5.6% from $725.5 million in fiscal 2000 to $766.3 million in fiscal 2001. The increase in net sales was primarily attributable to the additional sales volume from 118 net new stores opened during fiscal 2001 and that fiscal 2001 included 53 weeks of net sales compared to 52 weeks in fiscal 2000. Offsetting the increase was a decrease in comparable stores sales of 4.5% for the 52 week period ending January 27, 2001. Comparable store sales were negatively impacted primarily by declines in sales of PlayStation One software, Pokemon related toys and trading cards, and PC education and productivity software, which was partially offset by increases in new generation video game hardware and software for the Dreamcast and PlayStation 2 and Game Boy software.

Management fees decreased 9.2% from $4.9 million in fiscal 2000 to $4.4 million in fiscal 2001. The decrease was primarily attributable to no performance bonus being earned in fiscal 2001 under a consulting agreement with Border's Group, Inc. whereas $791,000 was recorded in fiscal 2000. In addition, lower fees were earned in fiscal 2001 under this agreement as fewer stores were managed in the last year of this agreement. As of February 3, 2001 the contract expired as the remaining store leases ended in January 2001. Offsetting these decreases were additional management fees earned from Electronics Boutique Plc. in fiscal 2001 of $516,000 due to increased sales.

Cost of goods sold increased by 7.7% from $548.2 million in fiscal 2000 to $590.4 million in fiscal 2001. As a percentage of net sales, cost of goods sold increased from 75.6% in fiscal 2000 to 77.0% in fiscal 2001. The increase in cost of goods sold, as a percentage of net sales was primarily attributable to several factors such as an increase in low margin video hardware sales, particularly Sega Dreamcast and Sony PlayStation 2, a decrease in sales of high margin Pokemon related toys and trading cards and a decrease in the gross margin on video game software. In addition, freight expense as a percentage of net sales increased due to the higher cost of shipping large quantities of video game hardware than in the prior year and the expediting of strong selling goods to stores to achieve maximum sell-through.

Fiscal 2001 Compared to Fiscal 2000 *(continued)*

Selling, general and administrative expense increased 8.2% from $133.5 million in fiscal 2000 to $144.5 million in fiscal 2001. As a percentage of total revenues, selling, general and administrative expense increased from 18.3% in fiscal 2000 to 18.7% in fiscal 2001. The $10.9 million increase was primarily attributable to the increase in Electronics Boutique's domestic and international stores base and the associated increases in store, distribution, and headquarter expenses, which was partially offset by an increase in promotional and marketing reimbursements. The increase in selling, general and administrative expense as a percentage of total revenues was primarily attributable to the increase in operating expenses for the factors noted above and the decline in comparable store sales, partially offset by an increase in overall net sales due to the additional new stores.

Depreciation and amortization expense increased by 29.1% from $12.3 million in fiscal 2000 to $15.9 million in fiscal 2001. The increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings, remodeling of existing stores and leasehold improvements, furniture and fixtures, and computer software at corporate headquarters. In addition, in fiscal 2001 Electronics Boutique purchased its corporate headquarters and distribution facility in West Chester, Pennsylvania, relocated to a larger distribution facility in Louisville, Kentucky and built new distribution and office facilities in Australia and Canada.

Operating income decreased by 45.0% from $36.4 million in fiscal 2000 to $20.0 million in fiscal 2001. As a percentage of total revenues, operating income decreased from 5.0% in fiscal 2000 to 2.6% in fiscal 2001, due to the increases in cost of goods sold and selling, general and administrative expense as a percentage of total revenues.

Other income of $1.6 million was recorded in fiscal 2001. This income was the result of a termination fee on the acquisition of Funco, Inc. of $3.5 million, net of associated expenses of $1.9 million.

Interest income, net, increased by 117% from $1.4 million in fiscal 2000 to $3.1 million in fiscal 2001. The increase was primarily due to income earned on short-term investments of the proceeds from our secondary offering completed in November 1999.

As a result of all the above factors, Electronics Boutique's income before income taxes decreased by 34.8% from $37.8 million in fiscal 2000 to $24.7 million in fiscal 2001.

Income tax expense decreased by 34.8% from $15.0 million in fiscal 2000 to $9.8 million in fiscal 2001. As a percentage of pre-tax income, income tax expense remained at 39.7% in both fiscal 2001 and fiscal 2000.

Fiscal 2000 Compared to Fiscal 1999

Net sales increased by 27.1% from $571.0 million in fiscal 1999 to $725.5 million in fiscal 2000. The increase in net sales was primarily attributable to an 11.6% increase in comparable store sales, which resulted in a $65.1 million increase in net sales, and the additional sales volume attributable to 91 net new stores opened during fiscal 2000. Comparable store sales were positively impacted primarily by the release of the Sega Dreamcast console system in the third fiscal quarter, which was supported by a strong supply of software titles through the end of the fiscal year. In addition, throughout the year there was a strong demand for Nintendo Game Boy software and hardware as well as toy categories including software-related action figures and Pokemon trading cards.

Management fees increased 43.1% from $3.4 million in fiscal 1999 to $4.9 million in fiscal 2000. The increase was primarily attributable to additional management fees earned from Electronics Boutique Plc. on the sales of a newly acquired competitor which occurred in May 1999 and to a $543,000 performance fee earned for fiscal 2000 and an additional $248,000 performance fee earned for fiscal 1999 and recorded in fiscal 2000 under the consulting agreement with Border's Group, Inc.

Cost of goods sold increased by 26.8% from $432.3 million in fiscal 1999 to $548.2 million in fiscal 2000. As a percentage of net sales, cost of goods sold decreased from 75.7% in fiscal 1999 to 75.6% in fiscal 2000. The decrease in cost of goods sold as a

Fiscal 2000 Compared to Fiscal 1999 *(continued)*

percentage of net sales was primarily attributable to increases in sales of Nintendo Game Boy software and hardware, Pokemon trading cards, toys and software-related action figures that carry higher overall margins than the console video game category.

Selling, general and administrative expense increased by 33.6% from $100.0 million in fiscal 1999 to $133.5 million in fiscal 2000. As a percentage of total revenues, selling, general and administrative expense increased from 17.4% in fiscal 1999 to 18.3% in fiscal 2000. The $33.5 million increase was primarily attributable to the increase in Electronics Boutique's domestic and international store base and the associated increases in store, distribution and headquarter operating expenses, which was partially offset by an increase in promotional and marketing reimbursements. In addition, $10.7 million was incurred in connection with an advertising and promotional campaign that began in the third quarter of fiscal 2000 primarily for Electronics Boutique's e-commerce business. The increase in selling, general and administrative expense as a percentage of total revenues was primarily attributable to the expenses associated with the advertising and promotional campaign in addition to other increases in operating expenses, partially offset by the increase in net sales.

Depreciation and amortization expense increased by 25.6% from $9.8 million in fiscal 1999 to $12.3 million in fiscal 2000. This increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings, remodeling of existing stores, for leasehold improvements and furniture and fixtures at corporate headquarters.

Operating income increased by 12.3% from $32.4 million in fiscal 1999 to $36.4 million in fiscal 2000. As a percentage of total revenues, operating income decreased from 5.7% in fiscal 1999 to 5.0% in fiscal 2000, as the decrease in cost of goods sold as a percentage of total revenues was more than offset by the increase in selling, general and administrative expenses as a percentage of total revenues.

Interest expense, net, improved from an expense of $0.3 million in fiscal 1999 to income of $1.4 million in fiscal 2000. The change was primarily attributable to interest income earned from investing excess cash in short term investments from the secondary offering in November 1999 and to the repayment of Electronics Boutique's debt with the proceeds of the initial public offering in fiscal 1999.

As a result of all the above factors, Electronics Boutique's income before income taxes increased by 18.3% from $32.0 million in fiscal 1999 to $37.8 million in fiscal 2000.

Income tax expense increased from $11.7 million in fiscal 1999 to $15.0 million in fiscal 2000. As a percentage of pre-tax income, income tax expense increased from 36.6% in fiscal 1999 to 39.7% in fiscal 2000. The increase as a percentage of pre-tax income was due to Electronics Boutique being taxed in fiscal 2000 as a C Corporation, whereas income in fiscal 1999 prior to the initial public offering on July 28, 1998 was taxed as an S Corporation.

Seasonality and Quarterly Results

Electronics Boutique's business, like that of most retailers, is highly seasonal. A significant portion of our net sales, management fees and profits are generated during Electronics Boutique's fourth fiscal quarter, which includes the holiday selling season. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other factors, the timing of new product introductions and new store openings, net sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in Electronics Boutique's merchandise mix.

The following table sets forth certain unaudited quarterly income statement information for fiscal 2000 and fiscal 2001. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

Seasonality and Quarterly Results *(continued)*

(in thousands, except for number of stores)

	Fiscal 2000				Fiscal 2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	$123,845	$113,272	$177,751	$315,526	$151,479	$126,128	$159,166	$333,987
Gross profit	33,167	30,756	41,430	76,870	38,592	31,658	36,936	73,152
Operating income	4,435	941	6,291	24,744	2,938	(5,633)	1,950	20,761
Net income	2,873	549	3,864	15,545	2,404	(2,006)	1,394	13,080
Earnings per share - basic	0.14	0.03	0.19	0.72	0.11	(0.09)	0.06	0.59
Earnings per share - diluted	0.14	0.03	0.19	0.71	0.11	(0.09)	0.06	0.58
Stores open at quarter end	550	564	595	619	628	645	694	737

A gain of $1.6 million resulting from the termination fee on the acquisition of Funco, Inc. was recorded in other income in the second quarter of Financial 2001.

Liquidity and Capital Resources

Electronics Boutique has historically financed operations through a combination of cash generated from operations and bank debt. On November 23, 1999, Electronics Boutique completed a secondary offering of 3,500,000 shares of common stock. Of the 3,500,000 shares sold, 2,000,000 shares were for the account of Electronics Boutique and 1,500,000 shares were for the account of EB Nevada, Inc., a selling shareholder. The transaction resulted in net proceeds (after offering expenses) to Electronics Boutique of approximately $40.0 million.

Electronics Boutique generated $0.8 million in cash from operations in fiscal 2001 and $37.5 million in fiscal 2000. The $0.8 million of cash generated from operations in fiscal 2001 was primarily the result of $14.9 million of net income, $16.2 million of non-cash charges to net income, a $3.6 million decrease in accounts receivable and an increase of $1.3 million in accrued expenses and deferred rent, partially offset by a $19.5 million decrease in accounts payable a $10.8 million increase in merchandise inventories, a $4.5 million decrease in taxes payable, and a $0.6 million increase in prepaid expenses. The $37.5 million of cash generated from operations in fiscal 2000 was primarily the result of $22.8 million of net income, $12.6 million of non-cash charges to net income, an $8.9 million increase in accounts payable net of an increase in merchandise inventories, a $1.7 million increase in accrued expenses and a $0.4 million decrease in deferred taxes, partially offset by a $5.3 million increase in receivables, and a $3.5 million increase in prepaid expenses. Electronics Boutique's working capital decreased from $42.6 million at January 29, 2000 to $30.1 million at February 3, 2001.

Electronics Boutique made capital expenditures of $44.8 million in the fiscal 2001, primarily to open new stores, to remodel existing stores, to purchase our corporate headquarters and distribution center in West Chester, Pennsylvania, to build new distribution and office centers in Canada and Australia and to purchase and install new software to enhance inventory management and allocation. We made capital expenditures of $31.8 million in the fiscal 2000, primarily to open new stores, to remodel existing stores, to build a new distribution center in West Chester, Pennsylvania, for leasehold improvements at Electronics Boutique's headquarters and primary distribution center and for equipment and leasehold improvements at a new customer service facility in Las Vegas, Nevada to support our Internet and catalog sales operations.

On March 16, 1998, EB entered into a credit agreement with Fleet, pursuant to which Fleet agreed to make available an asset based revolving credit and term loan facility in an amount up to $50.0 million. The revolving credit facility was assigned to Electronics Boutique by EB. The revolving credit facility was renewed for a one-year term expiring on March 16, 2002. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis

Liquidity and Capital Resources *(continued)*

points or Fleet's base rate of interest, at Electronics Boutique's option. The revolving credit facility is secured by certain assets, including accounts receivable, inventory, fixtures and equipment. As of February 3, 2001, we had no outstanding borrowings under the revolving credit facility.

Electronics Boutique believes that cash generated from its operating activities and available bank borrowings will be sufficient to fund its operations and store expansion programs for the next fiscal year.

Recent Accounting Pronouncements

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended by SFAS 137 and SFAS 138. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. As required under SFAS 137, Electronics Boutique will adopt SFAS 133 as amended in fiscal year 2002. The adoption of this standard will not materially impact Electronics Boutique's results of operations, financial condition or long-term liquidity.

Forward-Looking Statements

This Annual Report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements. When used in this report, the words "expect," "estimate," "anticipate," "intend," "predict," "believe," and similar expressions and variations thereof are intended to identify forward-looking statements within the meaning of and subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Forward-looking statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of Electronics Boutique, our directors or our officers with respect to, among other things: (i) trends affecting Electronics Boutique's financial condition or results of operations; and (ii) Electronics Boutique's business and growth strategies. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results or outcomes may differ materially from those projected in the forward-looking statements as a result of various factors, including those discussed in our Annual Report on Form 10-K for the year ended February 3, 2001.

Quantitative and Qualitative Disclosures About Market Risk

Electronics Boutique invests cash balances in excess of operating requirements in short-term investment grade securities, generally with maturities of 90 days or less. In addition, Electronics Boutique's revolving credit facility provides for borrowings which bear interest at variable rates based on either the bank's base rate or LIBOR plus 250 basis points. Electronics Boutique had no borrowings outstanding pursuant to the revolving credit facility as of February 3, 2001. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material.

Electronics Boutique has retail operations in various foreign countries including Canada, Australia, New Zealand and Korea. Electronics Boutique is subject to currency exchange rate and currency devaluation risks due to these operations. Since approximately 86% of Electronics Boutique's net sales are domestic, Electronics Boutique does not believe that currency exchange rate fluctuations would have a material adverse effect on Electronics Boutique's results of operations and financial condition. As of February 3, 2001, Electronics Boutique has forward contracts to sell Canadian Dollars for United States Dollars totaling $4,400,000, with a fair value of approximately $34,000, expiring in December 2001. We intend to monitor our exposure to these risks and reevaluate our hedging strategies as appropriate.

Independent Auditors' Report

The Board of Directors and Stockholders
Electronics Boutique Holdings Corp

We have audited the accompanying consolidated balance sheets of Electronics Boutique Holdings Corp. and subsidiaries as of January 29, 2000 and February 3, 2001, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended February 3, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electronics Boutique Holdings Corp. and subsidiaries as of January 29, 2000 and February 3, 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended February 3, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Philadelphia, PA
March 15, 2001

Electronics Boutique Holdings Corp. and Subsidiaries
Consolidated Balance Sheets

	January 29, 2000	February 3, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 88,356,091	$ 45,111,445
Accounts receivable:		
Trade and vendors	9,187,991	7,905,650
Other	2,630,622	257,176
Merchandise inventories	90,550,508	100,185,374
Deferred tax asset (note 11)	3,691,000	4,460,780
Prepaid expenses	4,524,233	5,069,802
Total current assets	198,940,445	162,990,227
Property and equipment:		
Building & leasehold improvements	59,816,209	76,709,776
Fixtures and equipment	45,391,518	59,916,886
Land	908,000	5,418,727
Construction in progress	2,446,460	4,752,103
	108,562,187	146,797,492
Less accumulated depreciation and amortization	45,566,262	55,629,616
Net property and equipment	62,995,925	91,167,876
Goodwill and other intangible assets, net of accumulated amortization of $877,968 and $1,242,890 as of January 29, 2000 and February 3, 2001	1,503,387	1,243,465
Deferred tax asset (note 11)	8,505,732	8,676,258
Other assets	3,567,388	3,160,714
Total assets (note 4)	$ 275,512,877	$ 267,238,540
Liabilities and Stockholders'Equity		
Current liabilities:		
Current portion of long-term debt (note 4)	$ 8,353	$ -
Accounts payable	122,822,260	102,381,151
Accrued expenses (note 3)	23,437,268	23,984,891
Income taxes payable	10,105,424	6,491,397
Total current liabilities	156,373,305	132,857,439
Long-term liabilities:		
Deferred rent	2,653,103	3,161,205
Total liabilities	159,026,408	136,018,644
Commitments (note 2)		
Stockholders'equity (notes 8 and 10)		
Preferred stock – authorized 25,000,000 shares; $.01 par value; no shares issued and outstanding at January 29, 2000 and February 3, 2001	-	-
Common stock – authorized 100,000,000 shares; $.01 par value; 22,221,114 and 22,304,722 shares issued and outstanding at January 29, 2000 and February 3, 2001, respectively	222,211	223,047
Additional paid-in capital	75,888,405	77,060,816
Accumulated other comprehensive expense	(240,726)	(1,551,809)
Retained earnings	40,616,579	55,487,842
Total stockholders'equity	116,486,469	131,219,896
Total liabilities and stockholders' equity	$ 275,512,877	$ 267,238,540

See accompanying notes to consolidated financial statements.

Electronics Boutique Holdings Corp. and Subsidiaries
Consolidated Statements of Income

	Year Ended		
	January 30, 1999	January 29, 2000	February 3, 2001
Net sales	$ 571,042,390	$ 725,521,536	$ 766,334,631
Management fees (notes 5 and 6)	3,404,862	4,872,822	4,425,097
Total revenues	574,447,252	730,394,358	770,759,728
Costs and expenses:			
Costs of merchandise sold, including freight	432,272,101	548,172,011	590,422,747
Selling, general and administrative (notes 5 and 6)	99,972,451	133,533,992	144,466,060
Depreciation and amortization (notes 5 and 7)	9,774,388	12,277,797	15,855,374
Operating income	32,428,312	36,410,558	20,015,547
Equity in loss of affiliate (note 5)	(160,575)	-	-
Other income	-	-	1,550,032
Interest expense (income), net of interest income of $829,631, $1,590,270 and $3,149,077 in fiscal years 1999, 2000 and 2001, respectively	289,188	(1,427,603)	(3,096,550)
Income before income taxes	31,978,549	37,838,161	24,662,129
Income tax expense (note 11)	11,693,270	15,007,773	9,790,866
Net income	$ 20,285,279	$ 22,830,388	$ 14,871,263
Net income per share - basic		$ 1.11	$ 0.67
Weighted average shares outstanding - basic		20,559,100	22,253,816
Net income per share - diluted		$ 1.10	$ 0.66
Weighted average shares outstanding - diluted		20,762,249	22,466,030

Pro forma data (unaudited) (note 7):

Income before income taxes	$ 31,978,549
Pro forma income taxes	11,866,084
Pro forma net income	$ 20,112,465
Pro forma net income per share - basic	$ 1.12
Pro forma weighted average shares outstanding - basic	18,029,777
Pro forma net income per share - diluted	$ 1.11
Pro forma weighted average shares outstanding - diluted	18,084,109

See accompanying notes to consolidated financial statements.

Electronics Boutique Holdings Corp. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Preferred stock		Class A Common stock		Class B Common stock		Common stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, Jan. 31, 1998	-	$ -	1,900	$ 190	21,000	$ 2,100	-	$ -
Effects of reorganization (note 1)	-	-	(1,900)	(190)	(21,000)	(2,100)	20,169,200	201,692
Comprehensive income:								
Net income	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-
Total comprehensive income								
Distributions	-	-	-	-	-	-	-	-
Balance Jan. 30, 1999	-	-	-	-	-	-	20,169,200	201,692
Comprehensive income:								
Net income	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-
Total comprehensive income								
Issuance of common stock (note 8)	-	-	-	-	-	-	2,000,000	20,000
Exercise of stock options	-	-	-	-	-	-	51,914	519
Tax benefit from stock options exercised and other equity transactions	-	-	-	-	-	-		
Balance Jan. 29, 2000	-	-	-	-	-	-	22,221,114	222,211
Comprehensive income:								
Net income	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-
Total comprehensive income								
Issuance of common stock	-	-	-	-	-	-	22,179	222
Exercise of stock options	-	-	-	-	-	-	61,429	614
Balance Feb. 3, 2001	-	$ -	-	$ -	-	$ -	22,304,722	$ 223,047

	Partners' Capital of EB Services Company LLP	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders equity
Balance, Jan. 31, 1998	$ 1,000	$ 7,584,365	$ (1,023,493)	$ 21,834,364	$ 28,398,526
Effects of reorganization (note 1)	(1,000)	23,957,063	-	(3,813,796)	20,341,669
Comprehensive income:					
Net income	-	-	-	20,285,279	20,285,279
Foreign currency translation	-	-	336,573	-	336,573
Total comprehensive income					20,621,852
Distributions	-	-	-	(20,519,656)	(20,519,656)
Balance Jan. 30, 1999	-	31,541,428	(686,920)	17,786,191	48,842,391
Comprehensive income:					
Net income	-	-	-	22,830,388	22,830,388
Foreign currency translation	-	-	446,194	-	446,194
Total comprehensive income					23,276,582
Issuance of common stock (note 8)	-	40,027,700	-	-	40,047,700
Exercise of stock options	-	726,277	-	-	726,796
Tax benefit from stock options exercised and other equity transactions	-	3,593,000	-	-	3,593,000
Balance Jan. 29, 2000	-	75,888,405	(240,726)	40,616,579	116,486,469
Comprehensive income:					
Net income	-	-	-	14,871,263	14,871,263
Foreign currency translation	-	-	(1,311,083)	-	(1,311,083)
Total comprehensive income					13,560,180
Issuance of common stock	-	311,845	-	-	312,067
Exercise of stock options	-	860,566	-	-	861,180
Balance Feb. 3, 2001	$ -	$ 77,060,816	$ (1,551,809)	$ 55,487,842	$ 131,219,896

Electronics Boutique Holdings Corp. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended January 30, 1999	Year Ended January 29, 2000	Year Ended February 3, 2001
Cash flows from operating activities:			
Net income	$ 20,285,279	$ 22,830,388	$ 14,871,263
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	9,375,766	11,882,789	15,490,452
Amortization of other assets	398,622	395,008	364,922
Loss on disposal of property and equipment	292,623	352,231	392,364
Equity in loss of affiliates	160,575	-	-
Changes in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(828,692)	(6,258,628)	3,578,766
Due from affiliates	1,906,739	987,909	-
Merchandise inventories	(12,309,661)	(24,526,184)	(10,779,526)
Prepaid expenses	1,882,619	(3,532,696)	(615,049)
Deferred taxes	-	413,008	(994,525)
Other long-term assets	(1,247,378)	(340,971)	239,996
(Decrease) increase in:			
Accounts payable	4,993,290	33,463,199	(19,534,654)
Accrued expenses	7,071,901	1,715,425	733,847
Due to affiliate	(9,453,597)	-	-
Income taxes payable	8,168,826	(49,424)	(3,470,608)
Deferred rent	79,647	150,662	516,264
Net cash provided by operating activities	30,776,559	37,482,716	793,512
Cash flows used in investing activities:			
Purchases of property and equipment	(19,573,171)	(31,756,803)	(44,816,664)
Proceeds from disposition of assets	132,592	5,323	92,748
Net cash used in investing activities	(19,440,579)	(31,751,480)	(44,723,916)
Cash flows from financing activities:			
Distributions	(19,950,573)	-	-
Proceeds from exercise of stock options	-	726,796	861,180
Repayments of long-term debt	(12,896,594)	(99,996)	(8,353)
Proceeds from issuance of common stock	54,962,500	40,047,700	312,067
Net cash retained by predecessors	(12,375,535)	-	-
Net cash provided by financing activities	9,739,798	40,674,500	1,164,894
Effects of exchange rates on cash	290,791	(55,824)	(479,136)
Net increase (decrease) in cash and cash equivalents	21,366,569	46,349,912	(43,244,646)
Cash and cash equivalents, beginning of period	20,639,610	42,006,179	88,356,091
Cash and cash equivalents, end of period	$ 42,006,179	$ 88,356,091	$ 45,111,445
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 1,207,210	$ 187,223	$ 5,136
Income taxes	2,853,773	13,577,519	13,824,421

See accompanying notes to consolidated financial statements.

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Formation of the Company

Immediately prior to its initial public offering, Electronics Boutique Holdings Corp. (collectively with its subsidiaries, the "Company") was formed and acquired substantially all of the operating assets and liabilities of its predecessors, The Electronics Boutique, Inc. and its subsidiaries and EB Services Company LLP (collectively, the "EB Group") for shares of the Company. This acquisition has been treated as an acquisition between entities under common control and, therefore, reflected at historical cost. The EB Group retained certain assets including cash, accounts receivable, real estate, the cash surrender value of certain split dollar life insurance policies and the ownership of approximately 25% of Electronics Boutique Plc.

Description of Business

The Company is among the world's largest specialty retailers of electronic games. The Company operates in only one business segment, as substantially all of its revenues, net income and assets are derived from its primary products of video games and personal computer entertainment software, supported by the sale of video game hardware, PC productivity software and accessories.

The Company had 528, 619 and 737 operating retail stores throughout the United States, Puerto Rico, Canada, Australia, New Zealand and South Korea at January 30, 1999, January 29, 2000 and February 3, 2001, respectively. Total revenues from the U.S. and foreign operations were 88% and 12%, respectively, in fiscal 2000 and 86% and 14%, respectively, in fiscal 2001. Long-lived assets located in the United States and foreign countries were 89% and 11%, respectively, in fiscal 2000 and 83% and 17%, respectively in fiscal 2001. We are subject to the risks inherent in conducting business across national boundaries. The Company also operates a mail order business and sells product via the Internet. Approximately 31%, 30% and 32% of fiscal 1999, fiscal 2000 and fiscal 2001 sales, respectively, were generated from merchandise purchased from its three largest vendors. The Company is highly dependent on the introduction by its vendors of new and enhanced video game and PC hardware and software.

Fiscal Year-End

The fiscal year ends on the Saturday nearest January 31. Accordingly, the financial statements for the years ended January 30, 1999 (fiscal "1999") and January 29, 2000 (fiscal "2000") each include 52 weeks of operations. Financial statements for the year ended February 3, 2001 (fiscal "2001") includes 53 weeks of operations.

Principles of Consolidation and Combination

The consolidated financial statements include the financial position and results of operations of the Company since its initial public offering on July 28, 1998. Prior to that date, the consolidated financial statements include the results of operations of the EB Group. All intercompany transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Revenue Recognition

Retail sales are recognized as revenue at point of sale. Mail order and internet sales are recognized as revenue upon shipment. Management fees are recognized in the period that related services are provided. Sales are recorded net of estimated amounts for sales returns and other allowances.

In fiscal 2001, the Company adopted Emerging Issues Task Force 00-10: Accounting for Shipping and Handling Costs. As a result, all shipping and handling fee income from the mail-order and internet operations is now recognized as net sales. Net sales and cost of goods sold were reclassified for fiscal 1999 and 2000 to reflect this change. The Company records shipping and handling costs in cost of goods sold.

The effect in fiscal 1999 and 2000 was an increase in net sales and an increase in cost of goods sold in the amount of $528,000 and $1,721,000, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents for cash flow purposes.

Merchandise Inventories

Merchandise is valued at the lower of cost or market. Cost is determined principally by a weighted-average method.

Property and Equipment
Property and equipment is recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements	Lesser of 10 years or the lease term
Furniture and Fixtures	5 years
Computer equipment	3 years
Building	30 years

The Company capitalizes significant costs to acquire management information systems software and significant costs of system improvements. Computer software costs are amortized over estimated useful lives of three to five years.

Included in selling, general and administrative costs for fiscal years 1999, 2000 and 2001, are losses of $293,000, $352,000 and $392,000, respectively, primarily related to the write-off of the net book value of property and equipment associated with the closing of ten stores in fiscal 1999, eight stores in fiscal 2000, nineteen stores in fiscal 2001 and the remodeling of several stores each year.

Deferred Revenue
Amounts received under the Company's pre-sell program are recorded as a liability. Revenue is recognized when the customer receives the related product. Certain affinity programs include promotional gifts to customers that are supplied by vendors at no cost to the Company.

Goodwill and Other Intangibles
Goodwill is being amortized on a straight-line basis over periods of up to ten years. Goodwill is evaluated continually to determine whether later events or circumstances warrant revised estimates of useful lives. The Company assesses the recoverability of other intangibles by determining whether the remaining balance can be recovered through projected undiscounted cash flows.

Other Assets
Other assets consist principally of life insurance programs for certain key executives and security deposits.

Leasing Expenses
The Company recognizes lease expense on a straight-line basis over the term of the lease when lease agreements provide for increasing fixed rentals. The difference between lease expense recognized and actual payments made is included in deferred rent and prepaid expenses on the balance sheet.

Preopening Costs and Advertising Expense
Preopening and start-up costs for new stores are charged to operations as incurred. Costs of advertising and sales promotion programs are charged to operations, offset by vendor reimbursements, as incurred.

Vendor Programs
The Company receives manufacturer reimbursements for certain training, promotional and marketing activities that offset the expenses of these activities. The expenses and reimbursements are reflected in selling, general and administrative expenses, as incurred or received.

Foreign Currency
The accounts of the foreign subsidiaries are translated in accordance with Statement of Financial Accounting Standard No. 52, Foreign Currency Translation, which requires that assets and liabilities of international operations be translated using the exchange rate in effect at the balance sheet date. The results of operations are translated using an average exchange rate for the year. The effects of rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as a foreign currency translation adjustment in the statements of stockholders' equity. Transaction gains and losses are included in net income.

Market risks relating to the Company's operations result primarily from changes in foreign exchange rates. The Company routinely enters into forward currency exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on intercompany loans. These contracts are generally for durations of less than twelve months.

The Company has forward contracts to sell Canadian Dollars for United States Dollars in the notional amount of $4,400,000 with a carrying value of $0 and a fair value of approximately $34,000 as of February 3, 2001.

Comprehensive Income

Effective February 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires that all items recognized under accounting standards as components of comprehensive income be reported in an annual financial statement that is displayed with the same prominence as other financial statements. The Company has included the required information in the Statement of Stockholders' Equity. Accumulated Other Comprehensive Income includes foreign currency translation adjustments.

Income Taxes

The Company is subject to federal and state income taxes as a C Corporation whereas the EB Group had been treated as an S Corporation and a partnership for federal and certain state income tax purposes resulting in taxable income being passed through to the shareholders and partners. For purposes of comparison, a pro forma tax charge has been reflected on the statements of income for fiscal 1999 to show the results of operations as if the EB Group had been subject to taxes as a C Corporation.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Net Income Per Share

Basic income per share is calculated by dividing net income by the weighted average number of shares of the Company's Common Stock outstanding during the period. Diluted income per share is calculated by adjusting the weighted average common shares outstanding for the dilutive effect of common stock equivalents related to stock options.

The following is a reconciliation of the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

	Fiscal 2000	Fiscal 2001
Weighted average shares outstanding – basic	20,559,100	22,253,816
Dilutive effect of stock options	203,149	212,214
Weighted average shares outstanding – diluted	20,762,249	22,466,030

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments are accounts receivable, accounts payable, long-term debt, certain long-term investments, and foreign exchange contracts. The carrying value of accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of life insurance policies included in other assets approximates fair value based on estimates received from insurance companies. The fair value of the foreign exchange contracts is included in the foreign currency note on page 30.

(2) COMMITMENTS

Lease Commitments

At February 3, 2001, the future annual minimum lease payments under operating leases for the following five fiscal years and thereafter were as follows:

	Retail Store Locations	Distribution Facilities	Total Lease Commitments
Fiscal 2002	$ 36,712,845	$ 922,036	$ 37,634,881
Fiscal 2003	35,407,681	902,836	36,310,517
Fiscal 2004	32,431,773	898,996	33,330,769
Fiscal 2005	30,019,865	757,780	30,777,645
Fiscal 2006	27,581,333	244,000	27,825,333
Thereafter	85,707,510	-	85,707,510
	$ 247,861,007	$ 3,725,648	$ 251,586,655

The total future minimum lease payments include lease commitments for new retail locations not in operation at February 3, 2001, and exclude contingent rentals based upon sales volume and owner expense reimbursements. The terms of the operating leases for the retail locations provide that, in addition to the minimum lease payments, the Company is required to pay additional rent to the extent retail sales, as defined, exceed amounts set forth in the lease agreements and to reimburse the landlord for the Company's proportionate share of the landlord's costs and expenses incurred in the maintenance and operation of the shopping mall. Contingent rentals were approximately $10,695,000, $12,605,000 and $9,966,000 in fiscal 1999, fiscal 2000 and fiscal 2001, respectively. Rent expense, including contingent rental amounts, was approximately $43,008,000, $53,178,000 and $58,496,000 in fiscal 1999, fiscal 2000 and fiscal 2001, respectively.

Certain of the Company's lease agreements provide for varying lease payments over the life of the leases. For financial statement purposes, rental expense is recognized on a straight-line basis over the original term of the agreements. Actual lease payments are less than the rental expense reflected in the statements of operations by approximately $84,000, $161,000 and 508,000 for fiscal 1999, fiscal 2000 and fiscal 2001, respectively.

(3) ACCRUED EXPENSES

Accrued expenses consist of the following:

	January 29, 2000	February 3, 2001
Employee compensation and related taxes	$ 7,439,552	$ 5,824,769
Gift certificates and customer deposits	3,269,046	5,153,460
Deferred revenue	2,327,733	3,605,498
Accrued rent	4,970,409	3,375,045
Other accrued liabilities	5,430,528	6,026,119
Total	$ 23,437,268	$ 23,984,891

(4) DEBT

The Company had available a revolving credit facility allowing for maximum borrowings of $50,000,000 at January 29, 2000 and February 3, 2001. The revolving credit facility was renewed for a one-year term expiring on March 16, 2002. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis points or the bank's base rate of interest, at the Company's option. The revolving credit agreement contains restrictive covenants regarding transactions with affiliates, the payment of dividends and other financial and non-financial matters and is secured by certain assets, including accounts receivable, inventory, fixtures and equipment. There was no outstanding balance at January 29, 2000 and February 3, 2001 on this facility.

The current portion of long-term debt at January 29, 2000 included a promissory note with a balance of $8,353 that was repaid on February 1, 2000.

(5) RELATED PARTY TRANSACTIONS

Transactions with Affiliates

In fiscal 1996, the EB Group entered into a services agreement with Electronics Boutique Plc to provide consulting, management, training and advertising assistance which expires on January 31, 2006. The majority shareholder of the Company indirectly owns approximately 20% of Electronics Boutique Plc. The agreement was assigned to the Company. The agreement prohibits the Company from competing in the United Kingdom or Ireland during the term of the agreement, and for one year after its termination. The agreement provides for a fee to be paid to the EB Group based on a formula of 1% of adjusted sales and if budgeted profits are exceeded for the year, a bonus equal to 25% of such excess. The management fee receivable at January 29, 2000 was $1,301,000 and at February 3, 2001 was $558,000; both were included in accounts receivable – trade and vendors. Included in management fees for fiscal 1999, fiscal 2000 and fiscal 2001 was $2,529,000, $3,850,000 and $4,366,000, respectively. Additionally, the agreement provides that the Company is to be reimbursed by Electronics Boutique Plc for all reasonable travel and subsistence expenses incurred by employees of the Company during their performance of the agreement. Amounts outstanding for these expenses at January 29, 2000 were $198,000 and were included in accounts receivable – trade and vendors. At February 3, 2001 there was a balance due to Electronics Boutique Plc of $43,000, which was included in accrued expenses.

Equity in loss of affiliates includes $160,575 for fiscal 1999 for Electronics Boutique Plc.

In June 2000, the Company purchased its headquarters and its primary distribution center, which are located in a single 140,000 square foot building on several acres in West Chester, Pennsylvania, from its majority shareholder for $6,700,000.

(6) CONSULTING AGREEMENT

In July 1993, the EB Group entered into a consulting agreement with a business that owns and operates retail stores. The Company provides consulting, management, administrative, marketing and advertising assistance to this retail business. The Company received $476,000, $226,000 and $57,000 during fiscal 1999, fiscal 2000 and fiscal 2001, respectively, as reimbursement for incremental costs incurred based on a formula as defined. Amounts owed to the Company for these items and trade credit at January 29, 2000 and February 3, 2001 are included in accounts receivable. Reimbursements offset selling, general and administrative expenses. Based on certain performance criteria as defined, the Company can also earn a performance fee. The Company earned $648,000 for fiscal 1999 ($248,000 of which was recorded in fiscal 2000) and $543,000 for fiscal 2000. No performance fee was earned for fiscal 2001. The consulting agreement expired on January 31, 2001.

(7) PRO FORMA STATEMENT OF INCOME INFORMATION (Unaudited)

For purposes of comparison, the following pro forma information for and fiscal 1999 is presented to show pro forma income on an after-tax basis as if the EB Group had been subject to taxes as a C Corporation.

	Fiscal 1999
Federal statutory tax rate	35.00 %
State income taxes, net of federal benefit	3.18
Other	3.34
Change in valuation allowance	(4.41)
Pro forma income tax rate	37.11 %

Set forth below are pro forma results of operations for fiscal 1999. The following table sets forth the calculation of basic and diluted net income per share:

	Fiscal 1999
Income before income taxes	$ 31,978,549
Pro forma income taxes	11,866,084
Pro forma net income	$ 20,112,465
Pro forma net income per share – basic	$ 1.12
Pro forma weighted average shares outstanding – basic	18,029,777
Pro forma net income per share – diluted	$ 1.11
Pro forma weighted average shares outstanding – diluted	18,084,109

The pro forma weighted average shares outstanding – basic reflects the effect of shares issued by the Company for the acquisition of substantially all the operating assets and liabilities of the EB Group for periods prior to the initial public offering. The pro forma weighted average shares outstanding – diluted additionally include the effect of dilutive stock options.

(8) CAPITAL STOCK

On November 23, 1999, the Company completed a secondary offering of 3,500,000 shares of common stock. Of the 3,500,000 shares sold, 2,000,000 shares were for the account of the Company and 1,500,000 shares were for the account of EB Nevada, Inc., the selling shareholder. The transaction resulted in net proceeds (after offering expenses) to the Company of approximately $40.0 million.

(9) EMPLOYEES' RETIREMENT PLAN

The Company provides employees with retirement benefits under a 401(k) salary reduction plan. Generally, employees are eligible to participate in the plan after attaining age 21 and completing one year of service. Eligible employees may contribute up to 17% of their compensation to the plan. Company contributions are at the Company's discretion and may not exceed 15% of an eligible employee's compensation. Company contributions to the plan are fully vested for eligible employees with five years or more of service. Contributions under this plan were approximately $389,000, $433,000 and $456,000 in fiscal 1999, fiscal 2000 and fiscal 2001, respectively.

(10) EQUITY PLANS

Equity Participation Plan

The Company adopted an equity participation plan pursuant to which 2,100,000 and 2,000,000 shares of common stock were reserved in fiscal 1999 and fiscal 2001, respectively, for issuance upon the exercise of stock options granted to employees, consultants and directors. The exercise price of options granted under this plan may not be less than fair market value per share of common stock at the grant date; options become exercisable one to three years after the grant date and expire over a period of not more than ten years. Exercisability is accelerated on a change in control of the Company, as defined in the plan.

Employee Stock Purchase Plan

Under Electronics Boutique's Employee Stock Purchase Plan (the Purchase Plan), associates meeting specific employment qualifications are eligible to participate and can purchase shares quarterly through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The Purchase Plan permits eligible associates to purchase common stock through payroll deductions for up to 10% of qualified compensation. As of February 3, 2001, 1,000,000 shares remain available for issuance under the Purchase Plan. The weighted-average fair value of the purchase rights granted in fiscal 2001 was $15.28.

Pro forma information regarding net income and income per share is required by Statement of Financial Accounting Standard ("FAS") No.123 and has been determined as if the Company had accounted for its employee stock options and the purchase plan under the fair value method of that Statement. The fair value was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	Fiscal 1999	Fiscal 2000	Fiscal 2001
Expected volatility	50.00 %	62.39 %	62.41 %
Risk-free interest rate	4.55 %	4.93 %	4.86 %
Expected life of options in years	3.5	3.0	3.0
Expected life of purchase rights in months	-	-	3.0
Dividend yield	0	0	0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's information follows:

	Fiscal 1999	Fiscal 2000	Fiscal 2001
Net income:			
As reported (pro forma in fiscal 1999)	$ 20,112,465	$ 22,830,388	$ 14,871,263
Pro forma net income	$ 19,234,620	$ 20,942,647	$ 12,100,336
Pro forma income per common share:			
Basic	$ 1.07	$ 1.02	$ 0.54
Diluted	$ 1.06	$ 1.01	$ 0.54

A summary of the Company's stock option activity, and related information for the fiscal year ended January 30, 1999, January 29, 2000 and February 3, 2001 follows:

	Shares	Exercise Price - Range per Share	Weighted Average Exercise Price
Outstanding at January 31, 1998	-	$ -	$ -
Granted	1,599,133	14.00	14.00
Forfeited	(37,800)	14.00	14.00
Outstanding at January 30, 1999	1,561,333	14.00	14.00
Granted	342,086	17.00 - 24.00	19.82
Exercised	(51,914)	14.00	14.00
Forfeited	(73,029)	14.00 - 19.88	14.00
Outstanding at January 29, 2000	1,778,476		
Granted	412,200	16.44 - 19.06	15.32
Exercised	(61,429)	14.00 - 19.88	14.02
Forfeited	(79,729)	14.00 - 19.88	15.33
Outstanding at February 3, 2001	2,049,518		
Exercisable at February 3, 2001	989,394		

The weighted average exercise price for all options outstanding as of February 3, 2001 was $15.09. The average remaining contractual life of those options was 8.0 years.

(11) INCOME TAXES

As discussed in notes 1 and 8, the Company is subject to federal and state income taxes as a C Corporation whereas its predecessors had been treated as an S Corporation and a partnership for federal and certain state income tax purposes resulting in taxable income being passed through to the shareholders and partners.

Income before income taxes was as follows:

	Fiscal 1999	Fiscal 2000	Fiscal 2001
Domestic	$ 31,331,801	$ 32,585,914	$ 19,790,343
Foreign	646,748	5,252,247	4,871,787
Total	$ 31,978,549	$ 37,838,161	$ 24,662,129

The provision for income taxes for fiscal 1999, fiscal 2000 and fiscal 2001 consists of the following:

	Fiscal 1999	Fiscal 2000	Fiscal 2001
Federal statutory tax rate	35.00 %	35.00 %	35.00 %
State income taxes, net of federal benefit	3.18	2.73	1.13
Foreign incremental taxes		1.06	1.59
S Corporation earnings not subject to federal taxation	(0.22)	-	-
Other	3.02	0.63	1.26
Change in valuation allowance	(4.41)	0.24	0.72
Income tax expense	36.57 %	39.66 %	39.70 %
Current:			
Domestic – Federal	$ 9,767,127	$ 12,022,610	$ 7,357,411
Domestic – State	3,050,653	1,601,952	1,030,459
Foreign	60,528	3,045,359	2,135,695
Deferred:			
Domestic – Federal	159,331	(1,245,891)	(115,269)
Domestic – State	(719,669)	(317,963)	(602,700)
Foreign	(624,700)	(98,294)	(14,730)
Income tax expense	$ 11,693,270	$ 15,007,773	$ 9,790,866

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of January 29, 2000 (fiscal 2000) and February 3, 2001 (fiscal 2001).

	Fiscal 2000	Fiscal 2001
Deferred tax assets:		
Inventory capitalized costs	$ 1,575,272	$ 1,437,370
Accrued expenses	2,078,001	2,447,190
State net operating loss	-	576,220
Fixed assets	7,161,428	7,251,683
Deferred rent	1,146,428	1,260,713
Amortization of goodwill	235,603	163,862
Foreign net operating loss	306,000	420,000
Total gross deferred tax asset	12,502,732	13,557,038
Valuation allowance	(306,000)	(420,000)
Net deferred tax asset	$ 12,196,732	$ 13,137,038

The increase in the valuation allowance of $92,000 and $114,000 in fiscal 2000 and 2001, respectively, results from net operating losses from a foreign subsidiary.

(12) QUARTERLY RESULTS (unaudited)

Electronics Boutique's business, like that of most retailers, is highly seasonal. A significant portion of our net sales, management fees and profits are generated during Electronics Boutique's fourth fiscal quarter, which includes the holiday selling season. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other factors, the timing of new product introductions and new store openings, net sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in Electronics Boutique's merchandise mix.

The following table sets forth certain unaudited quarterly income statement information for fiscal 2000 and fiscal 2001. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

(in thousands, except for number of stores)

	Fiscal 2000				Fiscal 2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	$123,845	$113,272	$177,751	$315,526	$151,479	$126,128	$159,166	$333,987
Gross profit	33,167	30,756	41,430	76,870	38,592	31,658	36,936	73,152
Operating income	4,435	941	6,291	24,744	2,938	(5,633)	1,950	20,761
Net income	2,873	549	3,864	15,545	2,404	(2,006)	1,394	13,080
Earnings per share - basic	0.14	0.03	0.19	0.72	0.11	(0.09)	0.06	0.59
Earnings per share - diluted	0.14	0.03	0.19	0.71	0.11	(0.09)	0.06	0.58
Stores open at quarter end	550	564	595	619	628	645	694	737

A gain of $1.6 million resulting from the termination fee on the acquisition of Funco, Inc. was recorded in other income in the second quarter of fiscal 2001.

Market for Registrant's Common Equity and Related Stockholder Matters

The common stock of Electronics Boutique was first traded publicly on July 28, 1998. The stock is quoted on the NASDAQ National Market under the symbol ELBO. The table below represents the high and low bid prices of Electronics Boutique's common stock as reported by NASDAQ.

	Fiscal 2000		Fiscal 2001	
	Low	**High**	**Low**	**High**
First fiscal quarter	$12.13	$19.88	$14.06	$19.75
Second fiscal quarter	13.50	18.38	13.13	19.88
Third fiscal quarter	16.63	26.31	18.25	24.38
Fourth fiscal quarter	14.00	25.38	14.88	20.63

Such quotations reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily reflect actual transactions.

As of April 19, 2001, the Company had approximately 36 shareholders of record (including Cede & Co., the nominee for Depository Trust Company, a registered clearing agency) of the 22,368,040 outstanding shares of the Company's Common Stock. On April 19, 2001, the last reported sale price for the Company's common stock as quoted by NASDAQ was $23.30 per share.

Dividend Policy

Electronics Boutique has never declared or paid any cash dividends our Common Stock and has no present intention to declare or pay any cash dividends on our Common Stock in the forseeable future. Electronics Boutique is subject to various financial covenants with our lenders that could limit and/or prohibit payment of dividends in the future. Electronics Boutique intends to retain earnings, if any, which we may realize in the forseeable future to finance operations.

Board of Directors

James J. Kim
Chairman of the Board
Electronics Boutique Holdings Corp.

Joseph J. Firestone
President and Chief Executive Officer
Electronics Boutique Holdings Corp.

Dean S. Adler
Partner, Lubert/Adler Partners, LP
(a real estate investment partnership)

Louis J. Siana
Senior Partner, Siana, Carr & O'Connor LLP
(a public accounting firm)

Susan Y. Kim
Director, Philadelphia Orchestra
(a non-profit music organization)

Stanley (Mickey) Steinberg
Consultant to Sony Corp. of America
(an electronics and entertainment company)

Executive Officers

Joseph J. Firestone
President and Chief Executive Officer

John R. Panichello
Senior Vice President and Chief Financial Officer,
President, EB GameWorld,
President, BC Sports Collectibles

Jeffrey W. Griffiths
Senior Vice President of Merchandising
and Distribution

Seth P. Levy
Senior Vice President and Chief Information Officer,
President, EBWorld.com, Inc.

James A. Smith
Senior Vice President of Finance

Steven R. Morgan
Senior Vice President of Stores

Shareholder Information:

Corporate Headquarters:
Electronics Boutique Holdings Corp.
931 South Matlack Street
West Chester, Pennsylvania 19382
(610) 430-8100

Independent Certified Public Accountants:
KPMG LLP
1600 Market Street
Philadelphia, Pennsylvania 19103

General Counsel:
Klehr, Harrison, Harvey, Branzburg & Ellers LLP
260 South Broad Street
Philadelphia, Pennsylvania 19102

Registrar and Stock Transfer Agent:
First Chicago Trust Company of New York
c/o EquiServe
150 Royall Street, Canton, MA 02021

Common Stock:
The Company's Common Stock is quoted on the NASDAQ National Market under the symbol ELBO.

Shareholder Inquiries:
For information about Electronics Boutique Holdings Corp. and its subsidiaries, including copies of Annual Reports, Forms 10-K and 10-Q and other available information, please contact in writing:

Electronics Boutique Holdings Corp.
Investor Relations
931 South Matlack Street
West Chester, Pennsylvania 19382

Internet Address:
Corporate Information: www.ebholdings.com
Retail: www.ebgames.com

Annual Meeting:
Electronics Boutique Holdings Corp. will hold its annual meeting of shareholders on July 16, 2001, at 11:00 AM, local time, at the Company's Corporate Headquarters located at 931 South Matlack Street, West Chester, Pennsylvania 19382.

FROM LEFT TO RIGHT:
Steve Morgan, Joe Firestone, Jeff Griffiths,
Jim Smith, Seth Levy, John Panichello