electronics boutique® 2002

When a passionate gamer needs the latest advancement, they know where to go – Electronics Boutique. Our fiscal 2002 performance reached record levels and we're poised to reach more goals in the coming years,

as the market for video and PC games continues to expand. Technological evolution has revolutionized the industry and we're proud to be leading the way in bringing the gaming experience into homes worldwide.

Corporate Profile

Electronics Boutique is celebrating its 25th birthday this year and the party will be global. We are one of the most recognized and trusted specialty retailers of video and PC game products in the world. At the end of fiscal 2002, we operated 937 stores located on four continents, which represented a 27% increase in our store base from the previous year. Our fiscal 2002 sales topped the $1 billion mark and comp store sales increased more than 20%.

$1 billion

As we move forward, we are devoting 100% of our energy to the market for video game and PC entertainment, which is expected to produce annual double digit growth over the next several years. We know the hot new game titles, and more importantly, we have those titles on our shelves. This singular focus makes us the retailer of choice to the discerning gamer. Our core customers, who routinely visit our stores once a week, are extremely loyal because we give them a level of service that can't be achieved by mass retailers.

We combine state-of-the-art inventory management and distribution systems with highly knowledgeable sales associates, most of whom share a passion for games with our customers. We also have one of the most cohesive and experienced senior management teams in the industry. Combined, our senior management team has 40 years of service with Electronics Boutique. We believe these competitive strengths, in an industry where evolution continues to fuel revolution, produce an outlook for the next 25 years that is looking very bright!

25 years

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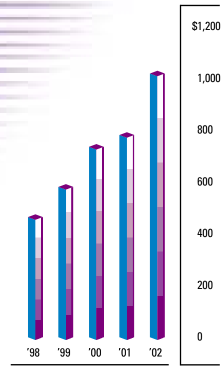
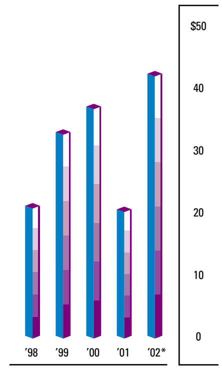


Total Revenues
(dollars in millions)



Income from Operations
(dollars in millions)

**Excludes $14.9 million of restructuring and asset impairment charges.*

Operating Data	**2002**	2001	2000	1999	1998
Stores open at end of period	**937**	737	619	528	452
Comparable store sales	**20.8%**	(4.5%)	11.6%	14.1%	15.3%

Balance Sheet Data	**02/02 2002**	02/03 2001	01/29 2000	01/30 1999	01/31 1998
Total assets	**$425,838**	$267,239	$275,513	$172,047	$142,791
Total liabilities	**$188,678**	$136,019	$159,026	$123,205	$114,392
Stockholders' equity	**$237,160**	$131,220	$116,487	$ 48,842	$ 28,399

James J. Kim
Chairman of the Board

$1.0 billion in sales

Sales increased 32% in fiscal 2002.

Evolution is often a gradual process. However, what happens when evolution fuels the exact opposite of gradual change? What happens when evolution inspires revolution?

Take one look at Pong as compared with Microsoft's Halo and there's no denying that the video game industry is on the fast track to becoming a "dominant species." Simply put, the evolution of video game technology has revolutionized the industry. The days of two paddles and a ball are a distant memory. In their place is an industry that generates more than $9 billion in domestic annual sales and is expected to produce annual double digit growth over the next several years.

More than just technical advancements, today's video games have become a lifestyle. Industry growth isn't coming solely from the dedication of teenage boys, but rather a broader demographic of people are flocking to video games as an entertainment form. Video games are revolutionizing the way entire families choose to spend their free time. In the scope of things to come, video game technology is in its infancy. The revolution has just begun and that creates tremendous opportunities for Electronics Boutique and our shareholders.

During the past 18 months, Sony, Nintendo and Microsoft have all successfully launched a new generation hardware system. Calendar 2001 was the largest hardware launch year in history with the Xbox, GameCube and Game Boy Advance selling a combined total of more than 7 million systems. When combined with sales of the PlayStation 2, which was released in late 2000, total industry hardware sales for 2001 exceeded 13 million systems.

In turn, we believe Electronics Boutique's fiscal 2002 financial results are indicative of our leadership position in the rapidly growing sector. Our total sales increased 32% from $770.8 million to a record $1.0 billion, with a 20.8% increase in comparable store sales worldwide. We increased our store base by 200 stores and ended the year with 937 stores in operation. We also completed a public stock offering that generated $68 million to fund our continued growth.

Our strength and future success is based on selling video game and PC game products and therefore we have made this our sole focus. As a result, we have announced a plan to sell our BC Sports Collectibles memorabilia business, as well as the elimination of our EBKids store concept, which had a broader range of children's products. Excluding the resulting $14.9 million pre-tax charge due to the sale and elimination, net income for fiscal 2002 increased 79% to $26.9 million, or $1.11 per diluted share, compared with $14.9 million, or $0.66 per diluted share for fiscal 2001 (including the charge, net income for fiscal 2002 was $17.7 million or $0.73 per diluted share).

The successful launches of the new PlayStation 2, GameCube, Xbox and Game Boy Advance systems have resulted in an installed base of more than 14 million units, collectively. This number is expected to grow upwards to approximately 37 million

Jeffrey W. Griffiths
President and CEO

1,000th store

Plan to open 200 new stores in fiscal 2003.

units in the coming year. Combined with previous generation systems, it's estimated that there are more than 93 million video game consoles in the United States today.

The next phase in the lifecycle of these new systems is ramped up software sales. In other words, now that our customer has his Xbox, what's he going to play on it? In calendar 2002, more than 500 video-game software titles will be released into the marketplace, which is a total significantly higher than the previous year. This is an enticing proposition for us given the higher margins associated with software versus hardware and our expertise in software sales. We've spent decades building our operational infrastructure, honing our sales approach and listening to our customers. No retailer knows the video game market better than Electronics Boutique, as demonstrated by our above average tie ratios of 10.4 pieces of software for every piece of hardware sold, compared with an industry average of 6.7 during 2001. We know what our customers want and we know how to sell it to them.

Electronic Boutique's specialty is getting the hot game titles, whether it's a game for a console system or a home PC, into the hands of customers on the first day of release. We're successful at this goal, because unlike many competitors, our sole focus is on the game market. Correspondingly, we typically have a very high market share early in a new products lifecycle. One of our differentiating strengths is that we have built strong pre-sell, reserve list and trade-in programs that attract avid gamers and create demand at our stores. The pre-sell and reserve list programs ensure that customers will get the new product on the first day it is available, because the knowledge we gain from building the lists guides our purchasing decisions and helps us secure allocations.

Our trade-in program is particularly attractive to our core customers, which play an average of 19 hours per week and tend to quickly reach the highest level of a game. Once the challenges of a game are mastered, our trade-in program encourages a customer to trade in a used game for credit towards the purchase of a new game. This creates a means for our customers to get the latest games at a lower price, a significant advantage over most of our competition. We then repackage the games for resale in our stores at lower prices than new games and at more profitable margins.

The explosive nature of the industry is creating a highly profitable market for pre-owned software. In addition to the compelling economics, our involvement in the pre-owned segment enables us to expand our reach beyond the avid gamer to the more casual gamer. Casual and "first-time" gamers are often attracted to the lower price of used games. It's our strategy to earn the loyalty of the casual gamer as they develop their love of the video game culture and graduate into our core customer base. Approximately 75% of our planned domestic store expansion in fiscal 2003 is slated for stores that are best suited for the casual gaming segment.

Senior Management Team
(left to right) John Panichello, Seth Levy, Jeffrey Griffiths, Steven Morgan, James Smith

1 brand

Implementing a master brand for all store formats.

Electronics Boutique is a proven market leader and we are confident that we can translate our success worldwide. We've operated in Canada, Australia, and New Zealand for several years and have recently started expansion in Europe. The European market is at a younger stage than the United States market, and is therefore expected to grow faster. The European market is also expected to soon surpass Japan to become the world's second largest video game market. The fragmented nature of this market makes it ripe for expansion of the Electronics Boutique store model. The value of the Electronics Boutique brand is known in Europe and, as a result, during our search for expansion channels, potential investment opportunities and partnerships often come to us. During the past year, we made a significant foothold by acquiring and opening a total of 36 stores in Italy, Germany and Scandinavia. Of our goal to open 200 new stores in fiscal 2003, 70 are planned for existing international markets.

Electronics Boutique, or EB as we're known to the majority of our customers, is one of the most trusted names in video game retailing worldwide. Gamers see the EB name and they know exactly what to expect: the highest level of customer service and satisfaction. In line with our expansion strategy, we have begun the process of applying a singular brand name, EB Games, to all of our operations. EB Games capitalizes on the EB name and communicates our dedicated focus on the gaming business. The move to a master brand for all store formats within our portfolio will simplify our brand recognition with consumers and enable us to leverage marketing dollars.

We'd like to take this opportunity to thank all of our customers, associates and vendors for helping us achieve the milestones of this past year. We'd also like to thank our shareholders for your continued support.

With the higher profitability of software versus hardware sales, increasing demand in higher margin pre-owned segment and expansion of the international markets, we have significant opportunities to grow Electronics Boutique physically and financially in the coming year.

James J. Kim
Chairman of the Board

Jeffrey W. Griffiths
President and CEO

Sony PlayStation 2
2000

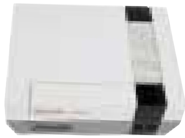
THE FOUNDATION IS LAID: THE INDUSTRY EVOLVES

Atari didn't create the world's first home video game system – that milestone belongs to the Magnavox Odyssey system. Atari does lay claim, however, to the creation of the world's first video game phenomenon. Originally an arcade game, Pong invaded homes in 1974, as Atari was well on its way to becoming the fastest growing company in the United States. To think of it today may be somewhat astonishing, but the simplicity of a ball bouncing between two square paddles captivated the imaginations of thousands and launched what is today over a $9 billion industry in the United States.

Fashioned after the arcade games that inspired them, the first home video game systems played one or two games that were built into the system. In 1977, Atari introduced its first cartridge based system, known as the Atari 2600, which enabled gamers to play a variety of different games sold separately from the systems. With the creation

Then…

Atari 2600
1977

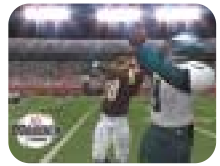


Nintendo
1985

Sega Genesis
1989

…Now

Sony PlayStation
1995



Madden 2002
2001

Final Fantasy X
2001

of the cartridge systems, success was not solely based on the technology of the hardware, but rather the consumer appeal of…and the developers commitment to…software titles. In other words, the systems were only as successful as the games you could play on them. As the 1970s came to a close, Atari was the dominant player in home systems with titles such as Asteroids, Missile Command and Space Invaders.

The dawn of the 1980s saw the rise of historic arcade games such as Pac-Man, Donkey Kong and Frogger, just to name a few. These games eventually made their way onto competing home systems from Atari, ColecoVision, Intellivision and others. Yet it was 1985 when Nintendo, with its 8-bit NES system, ushered in the next generation of systems that reinvigorated the business.

In addition to having widely popular games, such as Super Mario Bros. and Tetris, Nintendo's NES system revolutionized the controller. Previous systems used a joystick to control the action of a game, where the NES used buttons controlled by thumbs. A more natural style of playing, the new controllers enabled gamers to access more buttons, resulting in more intense action. The new style, which is the basis for today's controllers, combined with the enhanced graphics of the new technology attracted a whole new generation of gamers to the market.

During the next decade, technology evolved from 8-bit to 16-bit and Nintendo's Mario battled with Sega's Sonic the Hedgehog for market dominance. However, the next truly defining entrant into the market was the release of Sony's 32-bit PlayStation in 1995. The PlayStation is widely responsible for broadening the demographics of the market because it was the first video game system that was clearly not a child's toy. The PlayStation was quickly adopted by college students and young adults, who were attracted to the intellectual nature of role playing games, such as Final Fantasy, as well as enhanced realistic sports games.

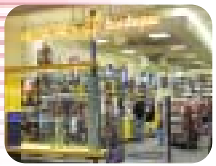
Regardless of which manufacturer's technology became the market leader, with each generation of system, the size of the market expanded. This is a phenomenon that continues with the current generation of 128-bit systems. Today's technology allows games to utilize special effects, such as 3D graphics, live video, and life-like animations, to enhance game action. The newest generation of systems also offer Internet connectivity, which enables gamers around the world to play together. As broadband access continues to expand, the Internet connectivity feature of the latest consoles provides significant potential to increase the number of people playing video games.

[Revolution]

Nintendo GameCube
2001

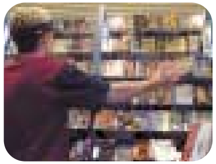
THE PUBLIC EMBRACES TECHNOLOGY: EVOLUTION INSPIRES REVOLUTION

Technological change in and of itself doesn't constitute a revolution. It's the frenzied embrace of the technological advancements by the masses that have turned the evolution of the video game industry into a movement. There are upwards of 40 million video game players in the United States, creating a market that generates more than $9 billion in annual sales and is expected to increase to more than $12 billion in size by the end of 2003. More importantly, these numbers are growing, and growing very rapidly. Calendar 2001 was the largest new system release year in history with the Xbox, GameCube and Game Boy Advance systems selling a combined total of more than 7 million units. The Xbox and GameCube were released late in the year and should therefore continue to sell solidly throughout 2002. As a result, the video game segment is expected to post a double digit annual growth from 2001 through 2003. As the retailer of choice to the



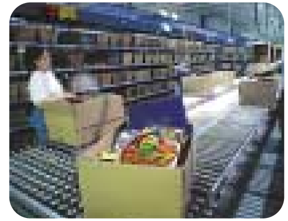
Three Major Hardware System Launches

Installed Base Reaches New Heights



Software Sales Expected to Soar

The future



Positioned to capitalize on industry growth.

largest segment of video game consumers, Electronics Boutique is positioned to capitalize on the growth dynamics of the industry.

You don't need to "trust" the predictions if you're a doubting type, because the empirical evidence is strong. From 1994 to 1999, a period which includes the lifecycle of the previous generation of games, such as Sega Genesis, PlayStation and Nintendo 64, the compounded annual growth rate for the video game segment was 22%.

With each generation of game consoles the market continues to expand, as new gamers are introduced to compelling characters like Lara Croft, Zelda and Luigi and existing gamers scramble for the latest advancements. At 2001 year end, the installed base of 7 million PlayStation 2 units was achieved in half the time it took the original PlayStation to reach that mark. By the end of 2002, the installed base of PlayStation 2 units is expected to top 16 million. These expected sales trends bode well for Electronics Boutique in the coming year, because we have high market share and tie ratios for software in the early stages of a new system's lifecycle.

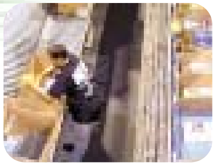
When the video game segment growth projections are broken down into hardware and software sales, Electronics Boutique's outlook for the coming years is even more compelling. Our specialty is the sale of new release software titles to avid gamers. For the next several years, software sales will grow faster than hardware sales. This is the natural lifecycle of a new game system. Next generation software sales are expected to increase rapidly over the next several years. It's estimated that approximately 500 titles, or 145 million pieces of software, will be sold this year industry wide. Highly profitable sales of pre-owned software is also expanding as a percentage of our business.

It's logical that when the current generation of systems have reached maturity, there will be new ones ready to dazzle consumers, in a market significantly larger than today's. Video games have rivaled movies as a form of American entertainment for the last several years and are clearly here to stay. We will continue to exploit our growth opportunities and extend Electronics Boutique's position in the marketplace.

Xbox
2001

THE INDUSTRY IS GROWING: EB TAKES LEADERSHIP ROLE

Without a leader, revolution is just chaos. At Electronics Boutique, we employ a first to market strategy that differentiates us from the competition. Our operating strategy targets game enthusiasts, or as we refer to them, avid gamers. It's estimated that avid gamers represent only 11% of users, yet a whopping 53% of industry sales. These avid gamers purchase an average of 12 game titles per year, own multiple hardware systems, and visit our Electronics Boutique stores an average of once a week. Because of the high volume of new titles that they purchase, avid gamers are also highly motivated by our trade-in program. Electronics Boutique is one of the only retailers that offers an extensive trade-in program.



Provides Immediate Access to Key Titles

Extensive Trade-in Program

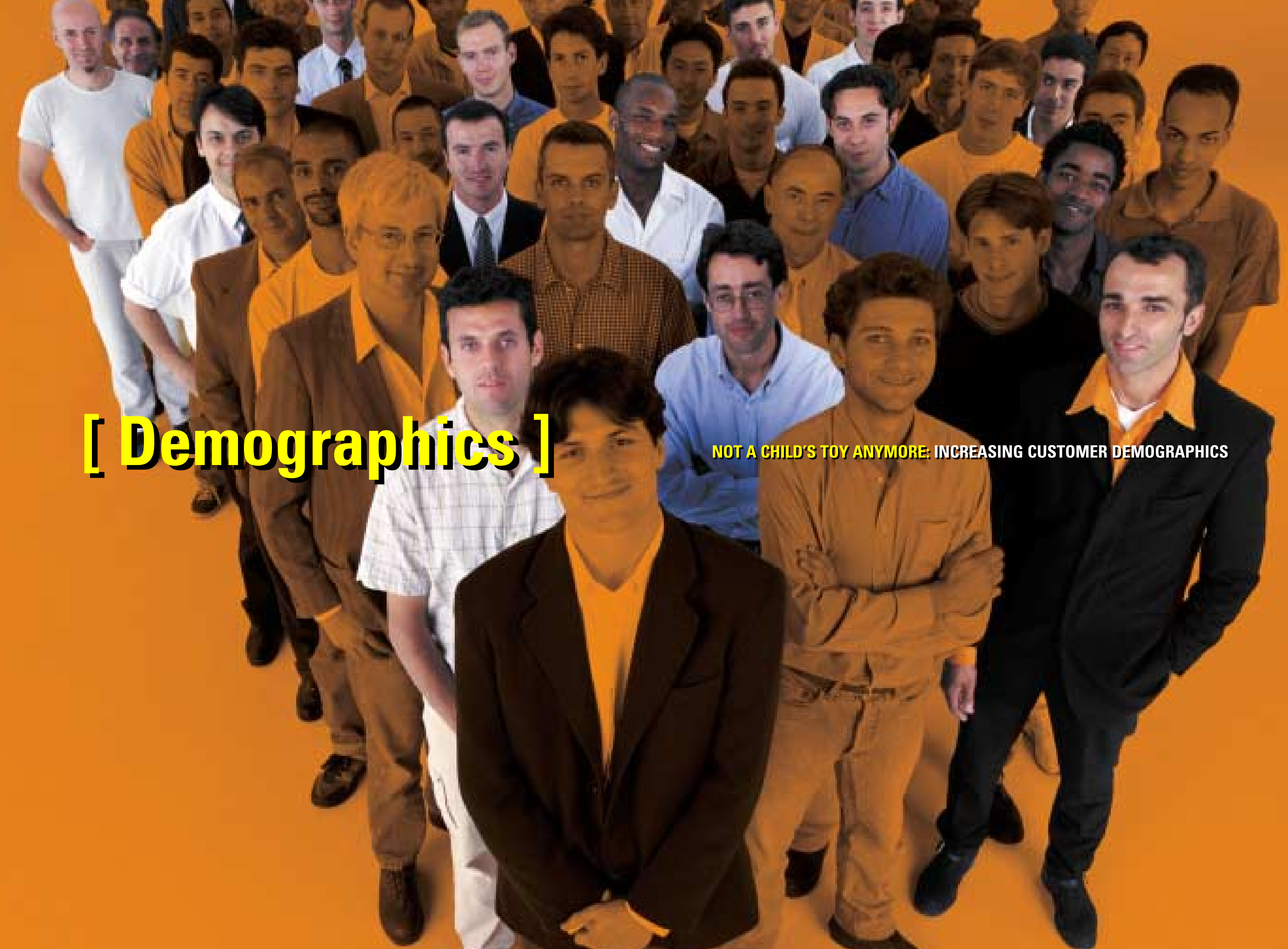
Dynamic Allocation and Distribution Systems

Perhaps the most important characteristic of the avid gamer is that they demand immediate access to new release titles. This is no small feat in the video game world of double digit weekly release schedules and competitive allocations. We do extensive research on new releases, determining projected demand for first week sales. Our savvy in this respect is a combination of art and science, with experienced merchandising managers armed with state-of-the-art forecasting tools. We have the "know how" and relationships to make sure the right quantity of a new release is waiting on our shelves when the customer walks in.

Since excess inventory results in decreased profit, we have very dynamic allocation and distribution systems that manage more than 1,200 titles from over 70 vendors in each of our stores at any given time. The avid gamer doesn't know that our leading edge distribution management and replenishment system, which was updated in 2000, has maximized sales of new releases and diminished markdowns as titles mature. He's not impressed that the system has also reduced freight costs and improved in-stock positions. The avid gamer only knows that when he wants a new game, Electronics Boutique is the place to go.

Avid gamers

They know we have the hottest titles in stock!



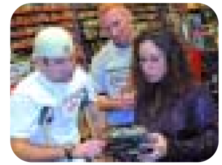
[Demographics]

NOT A CHILD'S TOY ANYMORE: INCREASING CUSTOMER DEMOGRAPHICS



The traditional demographic of our customer is steadily expanding.





Video games are more than a product or an industry, they're a lifestyle.

Video games are more than a product or an industry. They've become a lifestyle. Movies are made based on video and PC game characters. Music CDs are "inspired" by video games. Toys, cereals, clothing and you name it, all sport video game icons and references. The logical result of the mass introduction of video games into the public consciousness is that more consumers are attracted to the medium. The traditional demographic of a gamer…the teenage, tech savvy, male…is steadily expanding.

Video games have always appealed to the young, but now the appeal is steadily attracting young adults as well. The teenage boys who fed countless quarters into Galaga, Missile Command and Pole Position games are now 35 year old executives anxious to unwind after a stressful day at the office. Perhaps facing off on the family PlayStation 2 with their own children. The first generation of boys and girls who played endless hours of Donkey Kong after Mom finally gave into months of begging for a Nintendo, are now young adults with their own disposable income. The bottom line is that video games are fun and the hectic pace of our society has placed a premium on fun.

Wise to the possibilities of every family that owns a car or TV just as naturally owning a video game system or PC, developers are stepping up production of games that appeal to children, girls, young women and adult men.

Our primary focus continues to be the avid gamer. However, we do reach out to the casual gamer through our stores that are focused on the pre-owned segment. Additionally, as the casual gamer matures into an avid gamer, he or she will likely gravitate away from mass retailers to the expertise of Electronics Boutique.

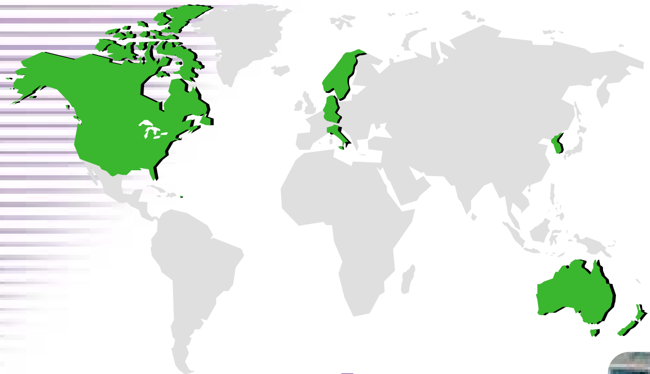
[Expansion]

Game Boy Advance
2001

STRONG GROWTH OPPORTUNITIES WORLDWIDE: INTERNATIONAL EXPANSION

The explosion of the video game industry is by no means an American phenomenon and we intend for Electronics Boutique to be a leader in the globalization of video game retailing. We have developed a strong international model in the decade since opening our first store outside the United States. At fiscal 2002 year end, our international portfolio included 92 stores in Canada, 69 stores in Australia and 11 stores in New Zealand. We also stepped up the expansion of our international model in fiscal 2002 to include countries such as Germany, Italy, Sweden, Norway and Denmark and ended the year with a total of 36 stores in Europe.

The European market is particularly attractive to us because the video game “culture” is not yet as prevalent a part of society in Europe as compared to the United States, but that is rapidly changing. The industry is simply at a younger stage, giving us a significant



new markets

Plan to open 70 international stores in fiscal 2003.

opportunity to benefit from the expected growth in demand as Europe surpasses Japan to become the second largest market. Our mall-based strategy also matches well with the high foot traffic shopping districts found in European markets.

Our goal is to open approximately 70 international stores, including 30 in Europe, during fiscal 2003 and we will continue to be on the lookout for additional acquisition opportunities.

It's a very dynamic time for the industry and Electronics Boutique. More people are playing video and computer games than ever before and the numbers are growing as technology continues to push the boundaries of the gaming experience. We are one of the leading speciality retailer in the electronic game segment and are positioned to further extend our market position as the market expands worldwide. As the industry continues to evolve, Electronics Boutique will be at the forefront of the revolution.

All industry data provided by International Development Group and Ziff Davis Media Game Group.

The following table sets forth for the periods indicated selected financial and other 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 ("EB Services"). The statement of income data and balance sheet data, 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 Form 10-K. 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.

	Year Ended				
	January 31, 1998	January 30, 1999	January 29, 2000	February 3, 2001	**February 2, 2002**
	(in thousands, except per share data and operating data)				
Statement of Income Data:					
Net sales	$449,180	$571,042	$725,522	$766,335	**$1,009,220**
Management fees	4,792	3,405	4,873	4,425	**5,889**
Total revenues	453,972	574,447	730,395	770,760	**1,015,109**
Cost of goods sold	338,498	432,272	548,172	590,423	**776,481**
Gross profit	115,474	142,175	182,223	180,337	**238,628**
Operating expenses	87,003	99,972	133,534	144,466	**179,464**
Restructuring and asset impairment charge (1)	-	-	-	-	**12,638**
Depreciation and amortization	7,997	9,775	12,278	15,855	**19,750**
Income from operations	20,474	32,428	36,411	20,016	**26,776**
Equity in earnings (loss) of affiliates	2,903	(161)	-	-	**-**
Other income	-	-	-	1,550	**-**
Interest (income) expense, net	1,380	289	(1,427)	(3,096)	**(1,884)**
Preacquisition loss of subsidiaries (2)	913	-	-	-	**-**
Income before income tax expense	22,910	31,978	37,838	24,662	**28,660**
Income tax expense (3)	846	11,693	15,008	9,791	**10,948**
Net income	$ 22,064	$ 20,285	$ 22,830	$ 14,871	**$ 17,712**
Net income per share – basic			$ 1.11	$ 0.67	**$ 0.74**
Weighted average shares outstanding – basic			20,559	22,254	**23,868**
Net income per share – diluted			$ 1.10	$ 0.66	**$ 0.73**
Weighted average shares outstanding – diluted			20,762	22,466	**24,230**

	Year Ended				
	January 31, 1998	January 30, 1999	January 29, 2000	February 3, 2001	**February 2, 2002**
	(in thousands, except per share data and operating data)				
Pro forma Income Data: (unaudited)					
Income before income taxes	$ 22,910	$ 31,978			
Pro forma income taxes (4)	9,415	11,866			
Pro forma net income (4)	$ 13,495	$ 20,112			
Pro forma net income per share – basic	$ 0.85	$ 1.12			
Pro forma weighted average shares outstanding – basic (5)	15,794	18,030			
Pro forma net income per share – diluted	$ 0.85	$ 1.11			
Pro forma weighted average shares outstanding – diluted (5)	15,794	18,084			
Operating Data: (6) (unaudited)					
Stores open at end of period	452	528	619	737	**937**
Comparable store sales increase (7)	15.3%	14.1%	11.6%	(4.5%)	**20.8%**

	As of				
	January 31, 1998	January 30, 1999	January 29, 2000	February 3, 2001	**February 2, 2002**
Balance Sheet Data:					
Working capital (deficit)	$ (17,728)	$ (3,091)	$ 42,567	$ 30,133	**$121,446**
Total assets	142,791	172,047	275,513	267,239	**425,838**
Total liabilities	114,392	123,205	159,026	136,019	**188,678**
Stockholders' equity	28,399	48,842	116,487	131,220	**237,160**

(1) In fiscal 2002, Electronics Boutique adopted a plan to close its EB Kids operations and sell its BC Sports Collectibles business. The charge represents the write-down of fixed assets, lease termination costs, and related expenses associated with the restructuring. In addition, a charge of $2.3 million was included in cost of goods sold for the write-down of inventory related to the restructuring.

(2) 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.

(3) 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 stockholders 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.

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

(5) 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.

(6) Does not reflect stores operated by EB-UK and WaldenSoftware for which we currently provide or have provided management services.

(7) 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.

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 2, 2002, we operated a total of 937 stores in 46 states, Puerto Rico, Australia, Canada, Denmark, Germany, New Zealand, Norway, Italy, Sweden and South Korea – primarily under the names Electronics Boutique and EB GameWorld. 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 Electronics Boutique Plc ("EB-UK"), which operated over 300 stores and department store-based concessions in the United Kingdom, Spain, France, 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.

Our fiscal year ends on the Saturday nearest January 31. Accordingly the financial statements for the years ended January 29, 2000 ("fiscal 2000") and February 2, 2002 ("fiscal 2002") each include 52 weeks of operations and the year ending February 3, 2001 ("fiscal 2001") includes 53 weeks of operations.

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 29, 2000	February 3, 2001	**February 2, 2002**
Net sales	99.3%	99.4%	**99.4%**
Management fees	0.7	0.6	**0.6**
Total revenues	100.0	100.0	**100.0**
Cost of goods sold	75.0	76.6	**76.5**
Gross profit	25.0	23.4	**23.5**
Operating expenses	18.3	18.7	**17.7**
Restructuring and asset impairment charge	-	-	**1.2**
Depreciation and amortization	1.7	2.1	**2.0**
Income from operations	5.0%	2.6%	**2.6%**
Other income	-	0.2	**-**
Interest income	0.2	0.4	**0.2**
Income before income tax expense	5.2	3.2	**2.8**
Income tax expense	2.1	1.3	**1.1**
Net income	3.1%	1.9%	**1.7%**

Fiscal 2002 Compared to Fiscal 2001

Net sales (including shipping and handling fees) increased by 31.7% from $766.3 million in fiscal 2001 to $1,009.2 million in fiscal 2002. Fiscal 2001 included 53 weeks of net sales compared to 52 weeks in fiscal 2002 partially offsetting the increase. The increase in net sales was primarily attributable to the additional sales volume from 200 net new stores opened during fiscal 2002 and a comparable store sales increase of 20.8%. The increase was driven by continuing strong sales of Sony's PlayStation 2 hardware and related software, as well as the introduction of Nintendo's GameBoy Advance in June 2001 and GameCube in November 2001, and Microsoft's Xbox in November 2001.

Management fees increased 33.1% from $4.4 million in fiscal 2001 to $5.9 million in fiscal 2002. The increase in management fees earned from EB-UK in fiscal 2002 was due to an increase in EB-UK's sales.

Cost of goods sold increased by 31.5% from $590.4 million in fiscal 2001 to $776.5 million in fiscal 2002. As a percentage of net sales, cost of goods sold decreased from 77.0% in fiscal 2001 to 76.9% in fiscal 2002. The decrease in cost of goods sold, as a percentage of net sales was primarily attributable to several factors such as an increase in high margin pre-owned sales, reduced freight costs, increased margins on PC products and a successful tiered pricing strategy. These improvements were partially offset by the increased sales of low margin hardware sales and the $2.3 million charge related to the write-down of inventory associated with our decision to discontinue our EB Kids operations and sell our BC Sports Collectibles business.

Selling, general and administrative expense increased 24.2% from $144.5 million in fiscal 2001 to $179.5 million in fiscal 2002. The $35.0 million increase was primarily attributable to the increase in our 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. As a percentage of total revenues, selling, general and administrative expense decreased from 18.7% in fiscal 2001 to 17.7% in fiscal 2002. The decrease in selling, general and administrative expense as a percentage of total revenues was primarily attributable to the increase in comparable store sales.

Depreciation and amortization expense increased by 24.6% from $15.9 million in fiscal 2001 to $19.8 million in fiscal 2002. The increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings, remodeling of existing stores, and capital improvements, furniture and fixtures and computer software at corporate headquarters. In addition, in fiscal 2002, we had a full year of depreciation on our fiscal 2001 purchases of our 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.

The restructuring and asset impairment charge of $12.6 million resulted from our adoption of a plan to close the operations of all 29 EB Kids stores and sell the 22 store BC Collectibles business. The charge represents the write-down of fixed assets, lease termination costs and related expenses associated with the restructuring.

Operating income increased by 33.8% from $20.0 million in fiscal 2001 to $26.8 million in fiscal 2002. As a percentage of total revenues, operating income was unchanged at 2.6% in fiscal 2001 and 2002. Excluding the $2.3 million charge to cost of goods sold and the $12.6 million restructuring and asset impairment charge, operating income would have been $41.7 million or 4.1% 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, decreased by 39.2% from $3.1 million in fiscal 2001 to $1.9 million in fiscal 2002. The decrease was due to lower interest rates on short-term investments.

As a result of all the above factors, our income before income taxes increased by 16.2% from $24.7 million in fiscal 2001 to $28.7 million in fiscal 2002.

Income tax expense increased by 11.8% from $9.8 million in fiscal 2001 to $10.9 million in fiscal 2002. As a percentage of pre-tax income, income tax expense decreased from 39.7% in fiscal 2001 to 38.2% in fiscal 2002. Our effective tax rate has decreased from the prior year principally as a result of a reduction of state tax expense as well as an increase in operations in foreign jurisdictions that have a lower tax rate than the United States.

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 Sega Dreamcast and PlayStation 2 and GameBoy 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 EB-UK in fiscal 2001 of $516,000 due to increased sales by EB-UK.

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.

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 our 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, we purchased our 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, our 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.

Seasonality and Quarterly Results

Our business, like that of most retailers, is highly seasonal. A significant portion of our net sales, management fees and profits are generated during our 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 our merchandise mix.

The following table sets forth certain unaudited quarterly income statement information for fiscal 2001 and fiscal 2002. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Fiscal 2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except for earnings per share and number of stores)			
Total revenues	$151,479	$126,128	$159,166	$333,987
Gross profit	38,592	31,658	36,936	73,152
Operating income (loss)	2,938	(5,633)	1,950	20,761
Net income (loss)	2,404	(2,006)	1,394	13,080
Earnings (loss) per share				
– Basic	0.11	(0.09)	0.06	0.59
– Diluted	0.11	(0.09)	0.06	0.58
Stores open at quarter end	628	645	694	737

	Fiscal 2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except for earnings per share and number of stores)			
Total revenues	**$179,860**	**$175,430**	**$169,282**	**$490,537**
Gross profit	**41,734**	**45,938**	**46,762**	**104,194**
Operating income (loss)	**(2,842)**	**(2,704)**	**4,289**	**28,033**
Net income (loss)	**(1,418)**	**(1,532)**	**2,920**	**17,742**
Earnings (loss) per share				
– Basic	**(0.06)**	**(0.07)**	**0.12**	**0.69**
– Diluted	**(0.06)**	**(0.07)**	**0.11**	**0.67**
Stores open at quarter end	**763**	**813**	**878**	**937**

A gain of $1.6 million ($1.0 million after-tax or $0.04 per diluted share) resulting from the termination fee on the acquisition of Funco, Inc. was recorded in other income in the second quarter of fiscal 2001. Net loss for the 13-week period ending July 29, 2000, excluding this charge, was $3.0 million or $0.13 per diluted share. The $28.0 million of operating income in the fourth quarter of fiscal 2002 includes a $14.9 million pre-tax charge ($9.2 million after-tax or $0.35 per diluted share) related to costs associated with our decision to close our EB Kids operations and sell our BC Sports Collectibles business. The pre-tax charge was recorded as follows: $2.3 million related to a write-down of inventory within cost of goods sold and $12.6 million as a restructuring and asset impairment charge. Net income for the 13-week period ended February 2, 2002, excluding this charge, was $27.0 million or $1.02 per diluted share.

Liquidity and Capital Resources

We have historically financed operations through a combination of cash generated from operations, equity offerings and bank debt. On November 23, 1999, we completed a public 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 us of approximately $40.0 million.

On August 14, 2001, we completed a public offering of 4,600,000 shares of common stock. Of the 4,600,000 shares sold, 2,500,000 shares were for the account of the Electronics Boutique and 2,100,000 shares were for the account of EB Nevada Inc., a selling shareholder. The transaction resulted in net proceeds (after offering expenses) to us of approximately $68.2 million.

We generated $31.4 million in cash from operations in fiscal 2002 and $0.8 million in fiscal 2001. The $31.4 million of cash generated from operations in fiscal 2002 was primarily the result of $17.7 million of net income, $20.0 million of non-cash charges to net income, a $32.8 million increase in accounts payable, an increase of $10.2 million in accrued expenses and deferred rent, and a $14.1 million increase in taxes payable, partially offset by a $3.6 million increase in accounts receivable, a $47.0 million increase in merchandise inventories, a $9.8 million increase in deferred taxes, a $2.3 million increase in prepaid expenses, and a $0.7 million increase in intangible and other long-term assets. In fiscal 2002, merchandise inventories and related accounts payable increased primarily due to the higher average cost of products associated with the new console systems introduced in the year and also due to a 27% increase in our store base over the prior year. 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 primary reason for the decrease in accounts payable from the prior year is due to additional payments being made in January 2001 as a result of the 53-week fiscal year and our election to take advantage of early payment discounts offered by some of our vendors.

We made capital expenditures of $23.7 million in fiscal 2002, primarily to open new stores, to remodel existing stores, to purchase and install a new inventory system in the Louisville distribution center and to renovate and expand the Pennsylvania corporate headquarters. In fiscal 2002, we also made investments of $9.2 million to acquire various assets and businesses in several European countries including 32 retail stores, distribution centers, and mail order and internet businesses. In fiscal 2001, we made capital expenditures of $44.8 million, 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.

On March 16, 1998, our predecessor, The Electronics Boutique, Inc. ("EB"), entered into a credit agreement with Fleet Capital Corporation, 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, 2003. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis points or Fleet's base rate of interest, at our option. The revolving credit facility is secured by certain assets, including accounts receivable, inventory, fixtures and equipment. As of February 2, 2002, we had no outstanding borrowings under the revolving credit facility.

Letters of credit outstanding with various financial institutions were $1.8 million at February 2, 2002.

We believe that cash generated from our operating activities and available bank borrowings will be sufficient to fund our operations and store expansion programs for the next fiscal year.

Related Party Transactions

Transactions with Affiliates

In fiscal 1996, EB entered into a services agreement with EB-UK to provide consulting, management, training, and advertising assistance, which expires on January 31, 2006. The agreement was assigned to EB Services Company, LLP ("EB Services"). The agreement prohibits EB Services 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 EB Services 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 February 3, 2001 was $363,000 and at February 2, 2002 was $573,000; both were included in accounts receivable – trade and vendors. Management fees received from EB-UK for fiscal 2000, fiscal 2001 and fiscal 2002 was $3,850,000, $4,366,000 and $5,955,000, respectively. Additionally, the agreement provides that EB Services is to be reimbursed by EB-UK for all reasonable travel and subsistence expenses incurred during performance of the agreement. At February 3, 2001 and February 3, 2002, there were no outstanding balances due from EB-UK.

Currently EB and EB Services are defendants in a lawsuit pending before the Chancery Division of the High Court of Justice in the United Kingdom filed by EB-UK on March 25, 2002. EB-UK claims that, as result of certain events, including our August 2001 secondary offering, a change in control has occurred allowing it to terminate the services agreement between EB Services and EB-UK prior to its expiration in 2006. No monetary damages are being sought by EB-UK. We believe we have meritorious defenses against the suit and intend to defend the suit vigorously. However, if EB-UK prevails and terminates the services agreement, our earnings could be significantly impacted.

In June 2000, we purchased our 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 EB Nevada Inc. for $6,700,000.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that intangible assets acquired in a purchase method business combination must meet certain criteria to be recognized and reported apart from goodwill and should be used for all business combinations initiated after June 30, 2001. Statement 142 states that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Our adoption of Statement 141 in fiscal 2002 did not have a material impact on our financial statements.

As of February 2, 2002, we had net unamortized goodwill and identifiable intangible assets of $8.7 million, all of which will be subject to the annual impairment test. $1.0 million of the net goodwill and intangible assets were from previous year's activity and the remaining $7.7 million relates to international acquisitions in fiscal 2002. Amortization of goodwill was $257,000 in fiscal 2002. We are currently assessing the impact of Statement 142, which will be adopted in fiscal 2003.

In August 2001, the FASB issued Statement No. 143 "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for an obligation associated with the retirement of a long-lived asset. The statement is effective for our fiscal year ending January 31, 2004. We are finalizing our review of this statement and are not expecting a material impact on our consolidated results of operations or financial condition.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement provides guidance for the impairment or disposal of long-lived assets. This statement is effective for our fiscal year ending February 1, 2003. We are finalizing our review of this statement and are not expecting a material impact on our consolidated results of operations or financial condition.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from those estimates. Our significant accounting policies can be found in the Notes to Consolidated Financial Statements (Note 1). We consider the following policies to be most critical to the portrayal of our financial condition and results of operations.

Inventory Valuation

Merchandise inventories are valued at the lower of cost or market. The cost is determined principally by a weighted average method. The weighted average cost method attaches a cost to each stock keeping unit ("SKU") and is a blended average of the original purchase price and those of subsequent purchases or other cost adjustments throughout the life cycle of that SKU.

Inherent in the video game business is the risk of obsolete inventory. As the new generation of products is introduced, demand for the prior generation decreases, thus reducing interest and value of the older games. Some vendors offer us credit to reduce the cost of products that are selling more slowly thus allowing for a reduction in the selling price and reducing the possibility for items to become obsolete. We monitor the aging of our inventory by item and provide a reserve for product that is considered "slow moving," using an established formula based on current inventory and a trailing sales history. We also monitor the difference between the selling ("market") price of each item and its cost and provide a reserve for any differences below such cost.

We perform regular physical inventories and cycle counts in both our stores and distribution centers to adjust inventory balances and account for shrink and damaged product. An accrual for estimated loss is recorded between the timing of these counts.

Reserves of $1,947,000 and $2,696,000 were recorded against inventory as of February 3, 2001 and February 2, 2002, respectively. Management believes its inventory valuation system results in carrying inventory at the lower of cost or market.

Revenue Recognition and Related Policies

We derive revenue primarily from two sources: (i) product revenue, which includes the retail sale of merchandise inventory, warranties, and shipping and handling fees and (ii) management services revenue. Sales are recorded net of estimated amounts for sales returns and other allowances.

Retail sales are recognized as revenue at the point of sale. Mail order and internet sales are recognized as revenue upon shipment. Revenues from shipping and handling are recorded in revenue and recognized upon shipment. Warranty revenue is amortized over the life of the warranty contract.

We also engage in the sale and trading of pre-owned video game products. Credit is issued for the assigned value of the pre-owned products accepted for trade against the purchase of other products. This treatment results in the reporting of lower revenue and cost of goods sold. However, there is no impact on gross profit.

Revenues for management services are recorded as earned. In fiscal 2002, all management fees earned were derived under a services agreement with EB-UK.

Restructuring Costs

We announced our plan to close all of our 29 EB Kids stores and sell our 22 store BC Sports Collectibles business.

We plan to offer alternative job opportunities to associates who may be displaced as a result of these actions. It is expected that a number of the EB Kids stores will be converted to the Electronics Boutique format. The converting of the EB Kids stores to the Electronics Boutique format or closing of the remaining stores is expected to be completed by June 1, 2002.

We have retained a financial advisor to assist in the sale of the BC Sports Collectibles business and expects to complete a transaction by the end of the second fiscal quarter. We continue to operate and incur expenses while we seek a purchaser of these stores. There can be no assurances that we will be able to identify a purchaser and close a sale to that purchaser within this, or any, time frame.

As a result of these decisions, we recorded a $14.9 million pre-tax charge in the fiscal fourth quarter and year ended February 2, 2002, consisting of the write-down of fixed assets and inventory, estimated lease termination costs, and related expenses. To determine the charge, management made various estimates and assumptions regarding the fair values of fixed assets and inventories, as well as estimating the costs associated with terminating certain leases. Actual costs could differ from these estimates. If this occurs, we will adjust our accrual accordingly.

Income Taxes

We are subject to income tax in many jurisdictions, including the United States, states and localities, and internationally. Income taxes are calculated in accordance with Statement of Financial Standard No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to our operations. Significant examples of this concept include capitalization policies for various tangible and intangible costs, income and expense recognition and inventory valuation methods. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not more likely than not, we must establish valuation allowances. We have valuation allowances of $534,000 as of February 2, 2002, due to uncertainties related to our ability to utilize the net operating loss carryforwards of certain foreign subsidiaries. Future tax expense may be impacted by this judgment.

Contractual Obligations

We have certain commitments under operating leases which are disclosed in Note 2 of the consolidated financial statements. Furthermore, for information on debt and lines of credit, see Note 4 of the consolidated financial statements.

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 our intent, belief or current expectations with respect to, among other things, trends affecting our financial condition or results of operations and our 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.

We urge you to carefully consider the following important factors that could cause actual results to differ materially from our expectations:

- the timing and continuation of the introduction of new products by manufacturers;
- the cyclical nature of our industry;
- our ability to keep pace with technological changes;
- our ability to open new stores and renew existing locations;
- our ability to compete in an intensely competitive industry;
- our ability to complete and integrate future acquisitions;
- the impact of our services agreement with EB-UK on our ability to expand in Europe;
- the outcome of the current lawsuit by EB-UK against EB and EB Services;
- our dependence on suppliers, including overseas sources;
- our dependence on management information systems; and
- our ability to recruit and retain skilled personnel.

For a more detailed discussion of these and other important factors that could impact our results, see the text under the heading "Risk Factors" in Item 1 of our most recent Form 10-K. The forward-looking statements made in this report are made only as of the date of publication (April 2002) and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

Quantitative and Qualitative Disclosures About Market Risk

We invest cash balances in excess of operating requirements in short-term investment grade securities, generally with maturities of 90 days or less. In addition, our 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, at our option. We had no borrowings outstanding pursuant to the revolving credit facility as of February 2, 2002. 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.

We have retail operations in various foreign countries including Canada, Australia, New Zealand, Korea, Denmark, Norway, Italy, Germany and Sweden. We are subject to currency exchange rate and currency devaluation risks due to these operations. Since approximately 86% of our net sales are domestic, we do not believe that currency exchange rate fluctuations would have a material adverse effect on our results of operations and financial condition. We routinely enter into forward and cross-currency swap exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on intercompany loans, investments in subsidiaries, and accounts payable. As of February 2, 2002, we have foreign currency forward contracts with a notional amount of $17.3 million and cross-currency swap contracts with a notional amount of $10.8 million. The total fair market value of all contracts is approximately $300,000. Three contracts for $13.0 million expire during fiscal 2003 and the remaining contracts for $15.1 million expire in future years. We intend to monitor our exposure to these risks and re-evaluate our hedging strategies as appropriate.

The table below provides information about our derivative financial instruments and other financial instruments by functional currency and presents such information in United States dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency forward exchange agreements, cross currency swap agreements and Swedish kroner (SEK) denominated debt obligations. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For foreign currency forward exchange agreements and cross currency swap agreements, the table presents the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts are generally used to calculate the contractual payments to be exchanged under the contracts.

	Expected Maturity Dates		Expected Maturity Dates					
	Fiscal 2003 US$	Fiscal 2004 US$	Fiscal 2005 US$	Fiscal 2006 US$	Fiscal 2007 US$	Thereafter US$	Total US$	**FMV 2002 FYE**
US$ Functional Currency								
Liabilities								
Long-Term Debt:								
Floating Rate (SEK)	$ 324,841	$ 43,837	$ 43,836	$25,103	$ 25,103	$5,058	$ 467,778	**$467,778**
Average Interest Rate	8.4%	7.78%	7.78%	7.80%	7.80%	8.50%		
Forward Exchange Contracts								
Contract Amount	$13,000,000	$750,000	$3,550,000	-	-	-	$17,300,000	**$178,185**
Cross-Currency Swap Contracts								
Contract Amount	-	-	$3,000,000	-	$7,778,525	-	$10,778,525	**$122,455**

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 February 3, 2001 and February 2, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2002. 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 February 3, 2001 and February 2, 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended February 2, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Philadelphia, Pennsylvania
March 14, 2002

	Years Ended		
	January 29, 2000	February 3, 2001	**February 2, 2002**
Net sales	$725,521,536	$766,334,631	**$1,009,219,786**
Management fees	4,872,822	4,425,097	**5,889,599**
Total revenues	730,394,358	770,759,728	**1,015,109,385**
Costs and expenses:			
Costs of goods sold, including freight	548,172,011	590,422,747	**776,481,445**
Selling, general and administrative	133,533,992	144,466,060	**179,464,298**
Restructuring and asset impairment charge	-	-	**12,637,905**
Depreciation and amortization	12,277,797	15,855,374	**19,749,746**
Operating income	36,410,558	20,015,547	**26,775,991**
Other income	-	1,550,032	**-**
Interest income, net	1,427,603	3,096,550	**1,883,654**
Income before income taxes	37,838,161	24,662,129	**28,659,645**
Income tax expense	15,007,773	9,790,866	**10,947,984**
Net income	$ 22,830,388	$ 14,871,263	**$ 17,711,661**
Net income per share – basic	$ 1.11	$ 0.67	**$ 0.74**
Weighted average shares outstanding – basic	20,559,100	22,253,816	**23,868,449**
Net income per share – diluted	$ 1.10	$ 0.66	**$ 0.73**
Weighted average shares outstanding – diluted	20,762,249	22,466,030	**24,229,881**

See accompanying notes to consolidated financial statements.

	February 3, 2001	**February 2, 2002**
Assets		
Current assets:		
Cash and cash equivalents	$ 45,111,445	**$126,523,541**
Accounts receivable:		
Trade and vendors	7,905,650	**11,474,587**
Other	257,176	**259,752**
Merchandise inventories	100,185,374	**149,791,859**
Deferred tax asset	4,460,780	**10,970,762**
Prepaid expenses	5,069,802	**7,426,307**
Total current assets	162,990,227	**306,446,808**
Property and equipment:		
Building & leasehold improvements	76,709,776	**85,028,687**
Fixtures and equipment	59,916,886	**76,247,107**
Land	5,418,727	**5,277,572**
Construction in progress	4,752,103	**1,175,599**
	146,797,492	**167,728,965**
Less accumulated depreciation and amortization	55,629,616	**72,788,793**
Net property and equipment	91,167,876	**94,940,172**
Goodwill and other intangible assets, net of accumulated amortization of $1,242,890 and $1,500,007 as of February 3, 2001 and February 2, 2002, respectively	1,243,465	**8,741,658**
Deferred tax asset	8,676,258	**11,897,160**
Other noncurrent assets	3,160,714	**3,811,832**
Total assets	$267,238,540	**$425,837,630**

See accompanying notes to consolidated financial statements.

	February 3, 2001	**February 2, 2002**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ -	**$ 324,841**
Accounts payable	102,381,151	**136,374,705**
Accrued expenses	23,984,891	**34,326,224**
Income taxes payable	6,491,397	**13,974,812**
Total current liabilities	132,857,439	**185,000,582**
Long-term liabilities:		
Notes payable	-	**142,937**
Deferred rent and other long-term liabilities	3,161,205	**3,533,985**
Total long-term liabilities	3,161,205	**3,676,922**
Total liabilities	136,018,644	**188,677,504**
Stockholders' equity		
Preferred stock – authorized 25,000,000 shares; $.01 par value; no shares issued and outstanding at February 3, 2001 and February 2, 2002	-	**-**
Common stock – authorized 100,000,000 shares; $.01 par value; 22,304,722 and 25,782,857 shares issued and outstanding at February 3, 2001 and February 2, 2002, respectively	223,047	**257,829**
Additional paid-in capital	77,060,816	**166,312,221**
Accumulated other comprehensive loss	(1,551,809)	**(2,609,427)**
Retained earnings	55,487,842	**73,199,503**
Total stockholders' equity	131,219,896	**237,160,126**
Total liabilities and stockholders' equity	$267,238,540	**$425,837,630**

See accompanying notes to consolidated financial statements.

	Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance January 30, 1999	-	$ -	20,169,200	$201,692	$ 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	-	-	2,000,000	20,000	40,027,700	-	-	40,047,700
Exercise of stock options	-	-	51,914	519	726,277	-	-	726,796
Tax benefit from stock options exercised and other equity transactions	-	-	-	-	3,593,000	-	-	3,593,000
Balance January 29, 2000	-	-	22,221,114	222,211	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	-	-	22,179	222	311,845	-	-	312,067
Exercise of stock options	-	-	61,429	614	860,566	-	-	861,180
Balance February 3, 2001	-	-	22,304,722	223,047	77,060,816	(1,551,809)	55,487,842	131,219,896
Comprehensive income:								
Net income	**-**	**-**	**-**	**-**	**-**	**-**	**17,711,661**	**17,711,661**
Foreign currency translation	**-**	**-**	**-**	**-**	**-**	**(1,057,618)**	**-**	**(1,057,618)**
Total comprehensive income								**16,654,043**
Issuance of common stock	**-**	**-**	**2,519,311**	**25,193**	**68,586,313**	**-**	**-**	**68,611,506**
Exercise of stock options	**-**	**-**	**958,824**	**9,589**	**13,925,619**	**-**	**-**	**13,935,208**
Tax benefit from stock options exercised	**-**	**-**	**-**	**-**	**6,739,473**	**-**	**-**	**6,739,473**
Balance February 2, 2002	**-**	**$ -**	**25,782,857**	**$257,829**	**$166,312,221**	**$(2,609,427)**	**$73,199,503**	**$237,160,126**

See accompanying notes to consolidated financial statements.

	Years Ended January 29, 2000	February 3, 2001	**February 2, 2002**
Cash flows from operating activities:			
Net income	$ 22,830,388	$ 14,871,263	**$ 17,711,661**
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	11,882,789	15,490,452	**19,492,629**
Amortization of other assets	395,008	364,922	**257,117**
Loss on disposal of property and equipment	352,231	392,364	**226,600**
Changes in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(6,258,628)	3,578,766	**(3,616,991)**
Due from affiliates	987,909	-	**-**
Merchandise inventories	(24,526,184)	(10,779,526)	**(47,008,834)**
Prepaid expenses	(3,532,696)	(615,049)	**(2,261,477)**
Deferred taxes	413,008	(994,525)	**(9,800,187)**
Other long-term assets	(340,971)	239,996	**(659,516)**
(Decrease) increase in:			
Accounts payable	33,463,199	(19,534,654)	**32,784,905**
Accrued expenses	1,715,425	733,847	**9,844,205**
Income taxes payable	(49,424)	(3,470,608)	**14,095,252**
Deferred rent and other long-term liabilities	150,662	516,264	**357,356**
Net cash provided by operating activities	37,482,716	793,512	**31,422,720**

	Years Ended		
	January 29, 2000	February 3, 2001	**February 2, 2002**
Cash flows used in investing activities:			
Purchases of property and equipment	$(31,756,803)	$(44,816,664)	**$ (23,725,272)**
Proceeds from disposition of assets	5,323	92,748	**92,636**
Net cash to acquire business	-	-	**(9,222,814)**
Net cash used in investing activities	(31,751,480)	(44,723,916)	**(32,855,450)**
Cash flows from financing activities:			
Proceeds from exercise of stock options	726,796	861,180	**13,935,208**
Repayments of long-term debt	(99,996)	(8,353)	**(23,522)**
Proceeds from issuance of common stock	40,047,700	312,067	**68,611,506**
Net cash provided by financing activities	40,674,500	1,164,894	**82,523,192**
Effects of exchange rates on cash	(55,824)	(479,136)	**321,634**
Net increase (decrease) in cash and cash equivalents	46,349,912	(43,244,646)	**81,412,096**
Cash and cash equivalents, beginning of period	42,006,179	88,356,091	**45,111,445**
Cash and cash equivalents, end of period	$ 88,356,091	$ 45,111,445	**$126,523,541**
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 187,223	$ 5,136	**$ 16,323**
Income taxes	13,577,519	13,824,421	**8,221,179**

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Description of Business

Electronics Boutique Holdings Corp. (collectively with its subsidiaries, 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 619, 737 and 937 operating retail stores throughout the United States, Puerto Rico, Canada, Australia, Denmark, Germany, New Zealand, Norway, Italy, Sweden and South Korea at January 29, 2000, February 3, 2001 and February 2, 2002, respectively. Total revenues from the United States and foreign operations were 88% and 12%, respectively in fiscal 2000 and 86% and 14%, respectively in fiscal 2001 and fiscal 2002. Long-lived assets located in the United States and foreign countries were 83% and 17%, respectively, in fiscal 2001 and 73% and 27%, respectively in fiscal 2002. 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 30%, 32% and 38% of fiscal 2000, fiscal 2001 and fiscal 2002 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 29, 2000 (fiscal "2000") and February 2, 2002 (fiscal "2002") 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

The consolidated financial statements include the financial position and results of operations of the Company and its subsidiaries. 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 increased $1,721,000 for fiscal 2000 to reflect this change. The Company records shipping and handling costs in cost of goods sold.

Cash and Cash Equivalents

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

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.

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 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.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement 141 requires that intangible assets acquired in a purchase method business combination must meet certain criteria to be recognized and reported apart from goodwill and should be used for all business combinations initiated after June 30, 2001. Statement 142 states that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. The adoption of Statement 141 by the Company in fiscal 2002 did not have a material impact on its financial statements.

As of February 2, 2002, the Company has net unamortized goodwill and identifiable intangible assets of $8.7 million, all of which will be subject to the annual impairment test. $1.0 million of the net goodwill and intangible assets were from previous year's activity and the remaining $7.7 million relates to international acquisitions in fiscal 2002. The Company is currently assessing the impact of Statement 142, which was adopted as of February 3, 2002.

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 the operations are translated using an average exchange rate for the year. The effects of the rate fluctuations in translating assets and liabilities of international operations into United States 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 and the equity section of the balance sheet.

Market risks relating to the Company's operations result primarily from changes in foreign exchange rates. The Company routinely enters into forward and cross-currency swap exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on intercompany loans, investments in subsidiaries, and accounts payable. These contracts vary in length of duration. On February 2, 2002, the Company had a total of seven forward contracts and seven cross-currency swap contracts. The forward contracts had a notional amount of $17,300,000 and the cross-currency swap contracts had a notional amount of $10,778,525. The total fair market value of all contracts at February 2, 2002 was approximately $300,000. These contracts were purchased as fair value hedges of intercompany loans, investments in subsidiaries, and trade payables. The Company recorded an immaterial net loss related to hedge ineffectiveness in fiscal 2002. The net loss is recorded in selling, general and administrative expense and in stockholders' equity. Three contracts for $13,000,000 expire during 2003 and the remaining contracts for $15,078,525 expire in future years.

In June 1998, the FASB issued Statement of Financial Accounting Standard 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, the Company adopted SFAS 133 as amended in fiscal year 2002. The cumulative effect of the adoption of this standard on February 4, 2001 did not materially impact the Company's results of operations, financial condition or long-term liquidity.

Income Taxes

The Company is subject to federal and state income 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	**Fiscal 2002**
Weighted average shares outstanding – basic	20,559,100	22,253,816	**23,868,449**
Dilutive effect of stock options	203,149	212,214	**361,432**
Weighted average shares outstanding – diluted	20,762,249	22,466,030	**24,229,881**

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, life insurance policies, 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 section above.

(2) Commitments

Lease Commitments

At February 2, 2002, 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 2003	$ 42,523,913	$1,409,764	$ 43,933,677
Fiscal 2004	39,341,700	1,426,366	40,768,066
Fiscal 2005	36,826,832	1,170,316	37,997,148
Fiscal 2006	34,313,489	531,782	34,845,271
Fiscal 2007	31,316,289	141,681	31,457,970
Thereafter	79,888,256	471,711	80,359,967
	$264,210,479	$5,151,620	$269,362,099

The total future minimum lease payments include lease commitments for new retail locations not in operation at February 2, 2002, 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 $12,605,000, $9,966,000 and $12,487,000 in fiscal 2000, fiscal 2001 and fiscal 2002, respectively. Rent expense, including contingent rental amounts, was approximately $53,178,000, $58,496,000 and $72,767,000 in fiscal 2000, fiscal 2001 and fiscal 2002, 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 $161,000, $508,000 and $462,000 for fiscal 2000, fiscal 2001 and fiscal 2002, respectively.

(3) Accrued Expenses

Accrued expenses consist of the following:

	February 3, 2001	**February 2, 2002**
Employee compensation and related taxes	$ 5,824,769	**$ 9,947,329**
Gift certificates and customer deposits	5,153,460	**6,010,771**
Deferred revenue	3,605,498	**6,144,879**
Accrued rent	3,375,045	**4,038,386**
Other accrued liabilities	6,026,119	**8,184,859**
Total	$23,984,891	**$34,326,224**

(4) Debt

The Company had available a revolving credit facility allowing for maximum borrowings of $50,000,000 at February 3, 2001 and February 2, 2002. The facility is subject to an immaterial annual commitment fee. The revolving credit facility was renewed for a one-year term expiring on March 16, 2003. 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 February 3, 2001 and February 2, 2002 on this facility.

Letters of credit outstanding with various financial institutions were $1.8 million at February 2, 2002.

The Company has a line of credit and various bank notes in its Swedish subsidiary with a total outstanding balance at February 2, 2002 of $467,778. The current portion of these obligations is $324,841. The weighted average of the interest rates on these facilities as of February 2, 2002 was 8.22%.

(5) Related Party Transactions

Transactions with Affiliates

In fiscal 1996, EB, a predecessor to the Company, entered into a services agreement with EB-UK to provide consulting, management, training, and advertising assistance which expires on January 31, 2006. The agreement was assigned to EB Services. 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 EB Services 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 February 3, 2001 was $363,000 and at February 2, 2002 was $573,000; both were included in accounts receivable – trade and vendors. Management fees received from EB-UK for fiscal 2000, fiscal 2001 and fiscal 2002 was $3,850,000, $4,366,000 and $5,955,000, respectively. Additionally, the agreement provides that EB Services is to be reimbursed by EB-UK for all reasonable travel and subsistence expenses incurred during performance of the agreement. At February 3, 2001 and February 3, 2002, there were no outstanding balances due from EB-UK.

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 EB Nevada, Inc. for $6,700,000.

(6) Consulting Agreement

In July 1993, EB entered into a consulting agreement with a business that owns and operates retail stores. The consulting agreement expired on January 31, 2001. The Company provided consulting, management, administrative, marketing, and advertising assistance to this retail business. The Company received $226,000 and $57,000 during 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 February 3, 2001 are included in accounts receivable. Reimbursements offset selling, general and administrative expenses. Based on certain performance criteria as defined, the Company earned a performance fee of $543,000 for fiscal 2000. No performance fee was earned for fiscal 2001.

(7) Capital Stock

On November 23, 1999, the Company completed a public 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.

On August 14, 2001, the Company completed a public offering of 4,600,000 shares of common stock. Of the 4,600,000 shares sold, 2,500,000 shares were for the account of the Company and 2,100,000 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 $68.2 million.

(8) 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 $433,000, $456,000 and $534,000 in fiscal 2000, fiscal 2001 and fiscal 2002, respectively.

(9) 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 1998 and 2000, 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 2, 2002, 980,689 shares remain available for issuance under the Purchase Plan. The weighted average fair value, net of the 15% discount, of the shares purchased by employees in fiscal 2001 and 2002 was $15.28 and $19.08, respectively.

Pro forma information regarding net income and income per share is required by Statement of Financial Accounting Standard 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 2000	Fiscal 2001	**Fiscal 2002**
Expected volatility	62.39%	62.41%	**61.51%**
Risk-free interest rate	4.93%	4.86%	**4.28%**
Expected life of options in years	3.0	3.0	**4.15**
Expected life of purchase rights in months	-	3.0	**3.0**
Dividend yield	-	-	**-**

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 2000	Fiscal 2001	**Fiscal 2002**
Net income:			
As reported	$22,830,388	$14,871,263	**$17,711,661**
Pro forma net income	$20,942,647	$12,100,336	**$14,344,409**
Pro forma income per common share:			
Basic	$ 1.02	$ 0.54	**$ 0.60**
Diluted	$ 1.01	$ 0.54	**$ 0.59**

A summary of the Company's stock option activity, and related information for the fiscal year ended January 29, 2000, February 3, 2001 and February 2, 2002 follows:

	Fiscal 2000	Fiscal 2001	**Fiscal 2002**
Outstanding at beginning of year	1,561,333	1,778,476	**2,049,518**
Granted	342,086	412,200	**1,085,400**
Exercised	(51,914)	(61,429)	**(958,824)**
Forfeited	(73,029)	(79,729)	**(83,499)**
Outstanding at end of year	1,778,476	2,049,518	**2,092,595**
Exercisable at end of year	520,444	989,394	**696,519**
Weighted average price per share:			
Granted	$19.82	$15.32	**$21.37**
Exercised	$14.00	$14.02	**$14.50**
Forfeited	$14.00	$15.33	**$17.70**

The weighted average exercise price for all options outstanding and exercisable as of February 2, 2002 were $18.34 and $15.13, respectively.

The table below summarizes information about stock options outstanding as of February 2, 2002.

	Options outstanding		
Range of exercise prices	**Number outstanding as of February 2, 2002**	Weighted average remaining contractual life	Weighted average exercise price
$ 9.50–$17.50	**898,383**	7.4	$14.60
$17.51–$29.06	**947,212**	8.8	$18.34
$30.00–$41.65	**247,000**	9.7	$31.90
	2,092,595		

	Options exercisable	
Range of exercise prices	**Number exercisable as of February 2, 2002**	Weighted average exercise price
$ 9.50–$17.50	**588,907**	$14.27
$17.51–$29.06	**107,612**	$19.84
$30.00–$41.65	**-**	-
	696,519	

(10) Income Taxes

As discussed in Note 1, the Company is subject to federal and state income taxes as a C Corporation.

Income before income taxes was as follows:

	Fiscal 2000	Fiscal 2001	**Fiscal 2002**
Domestic	$32,585,914	$19,790,343	**$25,800,384**
Foreign	5,252,247	4,871,787	**2,859,261**
Total	$37,838,161	$24,662,129	**$28,659,645**

The provision for income taxes for fiscal 2000, fiscal 2001 and fiscal 2002 consists of the following:

	Fiscal 2000	Fiscal 2001	**Fiscal 2002**
Federal statutory tax rate	35.00%	35.00%	**35.00%**
State income taxes, net of federal benefit	2.73	1.13	**0.51**
Foreign incremental taxes	1.06	1.59	**0.59**
Other	0.63	1.26	**1.51**
Change in valuation allowance	0.24	0.72	**0.59**
Income tax expense	39.66%	39.70%	**38.20%**
Current:			
Domestic – Federal	$12,022,610	$ 7,357,411	**$16,684,368**
Domestic – State	1,601,952	1,030,459	**1,825,218**
Foreign	3,045,359	2,135,695	**2,169,460**
Deferred:			
Domestic – Federal	(1,245,891)	(115,269)	**(7,167,503)**
Domestic – State	(317,963)	(602,700)	**(1,599,468)**
Foreign	(98,294)	(14,730)	**(964,091)**
Income tax expense	$15,007,773	$ 9,790,866	**$10,947,984**

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 February 3, 2001 and February 2, 2002.

Deferred tax assets:

	February 3, 2001	**February 2, 2002**
Inventory capitalized costs	$ 1,437,370	**$ 1,837,914**
Accrued expenses	2,447,190	**9,132,848**
State net operating loss	576,220	**576,220**
Fixed assets	7,251,683	**9,019,367**
Deferred rent	1,260,713	**1,422,710**
Amortization of goodwill	163,862	**233,862**
Foreign net operating loss	420,000	**1,179,001**
Total gross deferred tax asset	13,557,038	**23,401,922**
Valuation allowance	(420,000)	**(534,000)**
Net deferred tax asset	$13,137,038	**$22,867,922**

The increase in the valuation allowance of $114,000 in fiscal 2002 results from net operating losses from foreign subsidiaries.

(11) Quarterly Results (unaudited)

The Company's business, like that of most retailers, is highly seasonal. A significant portion of our net sales, management fees and profits are generated during the Company'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 the Company's merchandise mix.

The following table sets forth certain unaudited quarterly income statement information for fiscal 2001 and fiscal 2002. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Fiscal 2001			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except for earnings per share and number of stores)			
Total revenues	$151,479	$126,128	$159,166	$333,987
Gross profit	38,592	31,658	36,936	73,152
Operating income (loss)	2,938	(5,633)	1,950	20,761
Net income (loss)	2,404	(2,006)	1,394	13,080
Earnings (loss) per share				
– Basic	0.11	(0.09)	0.06	0.59
– Diluted	0.11	(0.09)	0.06	0.58
Stores open at quarter end	628	645	694	737

	Fiscal 2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands, except for earnings per share and number of stores)			
Total revenues	**$179,860**	**$175,430**	**$169,282**	**$490,537**
Gross profit	**41,734**	**45,938**	**46,762**	**104,194**
Operating income (loss)	**(2,842)**	**(2,704)**	**4,289**	**28,033**
Net income (loss)	**(1,418)**	**(1,532)**	**2,920**	**17,742**
Earnings (loss) per share				
– Basic	**(0.06)**	**(0.07)**	**0.12**	**0.69**
– Diluted	**(0.06)**	**(0.07)**	**0.11**	**0.67**
Stores open at quarter end	**763**	**813**	**878**	**937**

A gain of $1.6 million ($1.0 million after-tax or $0.04 per diluted share) resulting from the termination fee on the acquisition of Funco, Inc. was recorded in other income in the second quarter of fiscal 2001. Net loss for the 13-week period ending July 29, 2000, excluding this charge, was $3.0 million or $0.13 per diluted share. The $28.0 million of operating income in the fourth quarter of fiscal 2002 includes a $14.9 million pre-tax charge ($9.2 million after-tax or $0.35 per diluted share) (See Note 12). Net income for the 13-week period ended February 2, 2002, excluding this charge, was $27.0 million or $1.02 per diluted share.

(12) Restructuring Charge

On February 1, 2002, the Board of Directors of the Company adopted a plan related to the closing of the Company's 29 EB Kids stores and the sale of its 22 store BC Sports Collectibles business. A $14.9 million pre-tax charge ($9.2 million after-tax or $0.35 per diluted share) was recorded in fiscal 2002 related to this decision. The pre-tax charge was recorded as follows: $2.3 million related to a write-down of inventory within cost of goods sold and $12.6 million as a restructuring and asset impairment charge. The $12.6 million charge consisted of $5.8 million for asset impairment charges and the balance was primarily for lease termination costs.

(13) Acquisitions

On May 14, 2001, the Company acquired the assets of a Danish company consisting of eight retail stores and an internet site in Denmark and Norway for approximately $2.2 million.

On August 2, 2001, the Company acquired 70% of the capital stock of an Italian company, consisting of 10 retail stores and a distribution facility, for approximately $1.7 million. In conjunction with this acquisition, we have an option to purchase the remaining 30% of the capital stock of the Italian company for $798,000.

On October 5, 2001, the Company paid approximately $631,000 to acquire 90% of the capital stock of a German company, which then acquired assets consisting of three retail stores, a publishing business, a mail order operation and an internet site.

On November 15, 2001, the Company acquired all the outstanding shares of Tradition Svenska AB, a privately held video and hobby games retailer with 11 stores located in several cities in Sweden for approximately $4.7 million.

These acquisitions were accounted for using the purchase method of accounting and resulted in goodwill of $7.4 million.

(14) Legal Contingencies

We are involved from time to time in legal proceedings arising in the ordinary course of our business. In the opinion of management, no pending proceedings will have a material adverse effect on our results of operation or financial condition.

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 closing prices of Electronics Boutique's common stock as reported by Nasdaq®.

	Fiscal 2001		**Fiscal 2002**	
	Low	High	**Low**	**High**
First fiscal quarter	$14.06	$19.75	**$17.06**	**$28.42**
Second fiscal quarter	13.13	19.88	**28.02**	**35.25**
Third fiscal quarter	18.25	24.38	**25.85**	**41.65**
Fourth fiscal quarter	14.88	20.63	**32.05**	**44.00**

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

As of April 23, 2002, the Company had approximately 29 shareholders of record (including Cede & Co., the nominee for Depository Trust Company, a registered clearing agency) of the 25,810,462 outstanding shares of the Company's common stock. On April 23, 2002, the last reported sale price for the Company's common stock as quoted by Nasdaq was $31.22 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 foreseeable 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 foreseeable future to finance operations.