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GameStop Corp.
Form 10-K
April 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended February 3, 2018

OR

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

Commission

File

No. 1-32637

GameStop Corp.

(Exact name of registrant as specified in its Charter)

Delaware

20-2733559

(State or other jurisdiction of
incorporation or organization)

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

625 Westport Parkway

76051

Grapevine, Texas

(Zip Code)

(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of Class)

(Name of Exchange on Which Registered)

Class A Common Stock, \$.001 par value per share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Accelerated Non-accelerated Smaller reporting company Emerging growth
Filer Filer Filer Filer company

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of July 29, 2017 was approximately \$2.13 billion, based upon the closing market price of \$21.50 per share of Class A Common Stock on the New York Stock Exchange. (For purposes of this calculation all of the registrant's directors and officers are deemed affiliates of the registrant.)

Number of shares of \$.001 par value Class A Common Stock outstanding as of March 22, 2018: 101,583,319

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement of the registrant to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, for the 2018 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Disclosure Regarding Forward-looking Statements

This Annual Report on Form 10-K ("Form 10-K") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In some cases, forward-looking statements can be identified by the use of terms such as "anticipates," "believes," "continues," "could," "estimates," "expects," "intends," "may," "plans," "predicts," "pro forma," "seeks," "should," "will" or similar expressions. These statements are only predictions based on current expectations and assumptions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements included in this Form 10-K are based upon information available to us as of the filing date of this Form 10-K, and we undertake no obligation to update or revise any of these forward-looking statements for any reason, whether as a result of new information, future events or otherwise after the date of this Form 10-K, except as required by law. You should not place undue reliance on these forward-looking statements. The forward-looking statements involve a number of risks and uncertainties. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors," which are incorporated herein by reference. You should carefully consider the risks and uncertainties described in this Form 10-K.

PART I

ITEM 1. BUSINESS

General

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") is a global family of specialty retail brands that makes the most popular technologies affordable and simple. Within our family of brands, we are the world's largest omnichannel video game retailer, the largest AT&T® ("AT&T") authorized retailer, the largest Apple® ("Apple") certified products reseller and the owner of www.thinkgeek.com, one of the world's largest sellers of collectible pop-culture themed products. As of February 3, 2018, GameStop's retail network and family of brands include 7,276 company-operated stores in the United States, Canada, Australia and Europe.

We are a Delaware corporation which, through a predecessor, began operations as a specialty retailer of video games in November 1996. Our corporate office is located in Grapevine, Texas.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal year 2017 consisted of the 53 weeks ended on February 3, 2018 ("fiscal 2017"). Fiscal year 2016 consisted of the 52 weeks ended on January 28, 2017 ("fiscal 2016") and fiscal year 2015 consisted of the 52 weeks ended on January 30, 2016 ("fiscal 2015").

Our Reportable Segments

We operate our business in four geographic Video Game Brands segments: United States, Canada, Australia and Europe; and a Technology Brands segment. Financial information about our segments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16, "Segment Information," of the notes to the consolidated financial statements, included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Video Game Brands

The Video Game Brands segments include 5,899 stores, 3,864 of which are included in the United States segment. There are 321, 467, and 1,247 stores in the Canadian, Australian and European segments, respectively. The stores in our four Video Game Brands segments operate primarily under the names GameStop™ ("GameStop"), EB Games™ ("EB Games"), and Micromania. Each of the Video Game Brands segments consists primarily of retail operations, with all stores engaged in the sale of new and pre-owned video game systems, software and accessories, which we refer to as video game products. Our Video Game Brands stores sell various types of digital products, including downloadable content, network points cards, prepaid digital, prepaid subscription cards and digitally downloadable software and also sell collectible products and certain mobile and consumer electronics products. Through our omnichannel sales

process, including iOS and Android mobile applications, our customers can buy video game products and other merchandise online, reserve merchandise online and then pick it up in stores, or order products that may not be in-stock in stores and have it shipped to their homes. We operate e-commerce sites under the brand names of GameStop, EB Games, Micromania and ThinkGeek, that allow our customers to buy video game products, collectibles and other merchandise online. Our family of brands also includes Game InformerTM (“Game Informer”) magazine, the world's leading print and digital video game publication.

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Within our Video Game Brands segments, we operate 103 pop culture themed stores selling collectibles, apparel, gadgets, electronics, toys and other retail products for technology enthusiasts and general consumers, with 66 collectibles stores in international markets operating under the Zing Pop Culture brand and 37 stores in the United States operating under the ThinkGeek brand.

Technology Brands

Our Technology Brands segment includes our Spring Mobile and Simply Mac businesses. Spring Mobile operates 1,329 AT&T branded wireless retail stores. The AT&T branded stores sell both pre and post-paid AT&T services, DIRECTV service and wireless products, as well as related accessories and other consumer electronics products. Simply Mac operates 48 Simply Mac© branded stores which sell Apple products, including desktop computers, laptops, tablets and smart phones and related accessories and other consumer electronics products. As an authorized Apple reseller, Simply Mac also offers certified training, warranty and repair services to its customers.

Market Size

Video Game Products. Based upon estimates compiled by various market research firms, including NPD Group, Inc. ("NPD") and International Development Group ("IDG"), we estimate that the market for new physical video game products was approximately \$18 billion in 2017 in the countries in which we operate. This estimated market excludes sales of pre-owned video game products, which are not currently measured by any third-party research firms.

Additionally, based on estimates compiled by various market research firms, we estimate that the market in North America for content in digital format (full-game and add-on content downloads for console and PC, subscriptions, mobile games and social network games) was between \$15 billion and \$26 billion in 2017.

Mobile and Consumer Electronics. The mobile and consumer electronics market, as we refer to it, consists primarily of wireless services, new and pre-owned mobile devices, such as smart phones and tablets, consumer electronics such as Apple products and services, non-gaming headsets and accessories. The market for wireless devices and services is estimated by CTIA — The Wireless Association to exceed \$188 billion.

Merchandise

We categorize our sale of products and services as follows:

New Video Game Hardware. We offer video game platforms from the major manufacturers. The current generation of consoles include the Sony PlayStation 4 (2013), Microsoft Xbox One (2013) and the Nintendo Switch (March 2017). In 2016, Sony and Microsoft released refreshes to the PlayStation 4 and Xbox One, respectively. In November 2017, Microsoft released a further enhanced version of its current generation console, the Xbox One X. We also offer extended service agreements on video game hardware and software. Video game hardware sales are generally driven by the introduction of new platform technology and the reduction in price points as platforms mature.

New Video Game Software. We offer new video game software for current and certain prior generation consoles from the leading manufacturers, including Sony, Nintendo and Microsoft, as well as all other major third-party game publishers, such as Electronic Arts and Activision Blizzard. We are one of the largest retailers of video game titles sold by these publishers. We carry new video game software across a variety of genres, including sports, action, strategy, adventure/role playing and simulation.

Pre-owned and Value Video Game Products. We provide our customers with an opportunity to trade in their pre-owned video game products in our stores in exchange for store credits which can be applied towards the purchase of other products, primarily new merchandise. We believe this process drives our higher market share, particularly at launch. We resell these pre-owned video game products and have the largest selection of pre-owned video game titles which have an average price of \$25 as compared to an average price of \$48 for new video game titles and which generate significantly higher gross margins than new video game products. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate refurbishment centers in the United States, Canada, Australia and Europe, where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

Video Game Accessories. Video game accessories consist primarily of controllers, gaming headsets, virtual reality products, memory cards and other add-ons for use with video game hardware and software.

- **Digital.** The proliferation of online game play through Microsoft Xbox Live, the PlayStation Network and PC gaming websites has led to consumer demand for subscription, time and points cards ("digital currency") as well as full-game downloads and digitally downloadable content ("DLC"), for existing console video games. We sell

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a wide variety of digital currency and we have developed technology to sell DLC and full-game downloads in our stores and on our U.S. website. We believe we are the worldwide leading retailer of digital currency and DLC for Xbox Live and the PlayStation Network.

Technology Brands. Technology Brands consist primarily of wireless products, services and accessories and consumer electronics offered in our Technology Brands segment through Spring Mobile managed AT&T branded stores and Simply Mac stores.

Collectibles. Collectibles consist of licensed merchandise, primarily related to the video game, television and movie industries and pop culture themes which are sold through our video game stores, ThinkGeek stores, Zing Pop Culture stores and www.thinkgeek.com.

Other Products. Other products primarily consist of PC entertainment software, gaming-related print media, mobile and consumer electronics sold through our Video Game Brands segments, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form. We offer PC entertainment software from many of the largest PC publishers, including Electronic Arts, Take Two and Activision Blizzard across a variety of genres, including sports, action, strategy, adventure/role playing and simulation. We also carry strategy guides, magazines and interactive game figures, such as Amiibos from Nintendo and Skylanders from Activision Blizzard.

Store Operations

We design our video game stores to provide an electronic gaming atmosphere with an engaging and visually captivating layout, with an average size of 1,700 square feet. Our video game stores are typically equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

Our Technology Brands stores vary in size, with an average size of approximately 1,900 square feet. Our Spring Mobile managed AT&T branded stores carry wireless products and accessories, and our Simply Mac stores carry Apple and other consumer electronics.

Our stores are generally located in high-traffic “power strip centers,” local neighborhood strip centers, high-traffic shopping malls and pedestrian areas, primarily in major metropolitan areas. These locations provide easy access and high frequency of visits and, in the case of strip centers and high-traffic pedestrian stores, high visibility. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor tenant and have a high volume of customers.

Site Selection and Locations

Site Selection. Site selections for new stores are made after an extensive review of demographic data, including data from our PowerUp Rewards loyalty program, and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of our other stores. Spring Mobile managed AT&T branded stores are selected after approval from AT&T. Simply Mac stores are selected with input from Apple. In each of our geographic segments, we have a dedicated staff of real estate personnel experienced in selecting store locations.

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Domestic Locations. The table below sets forth the number and locations of our domestic stores included in the U.S. Video Game Brands and Technology Brands segments as of February 3, 2018:

	U.S. Video Game Brands		U.S. Technology Brands		U.S. Video Game Brands		U.S. Technology Brands	
Alabama	61	6	Kentucky	70	23	Ohio	169	1
Alaska	7	6	Louisiana	63	17	Oklahoma	49	28
Arizona	73	31	Maine	11	1	Oregon	35	37
Arkansas	31	26	Maryland	87	8	Pennsylvania	185	36
California	384	197	Massachusetts	82	32	Rhode Island	12	1
Colorado	58	31	Michigan	103	—	South Carolina	68	27
Connecticut	47	26	Minnesota	45	36	South Dakota	11	—
Delaware	14	13	Mississippi	44	26	Tennessee	93	30
District of Columbia	—	2	Missouri	68	45	Texas	367	118
Florida	246	74	Montana	10	9	Utah	27	38
Georgia	129	59	Nebraska	21	4	Vermont	4	—
Guam	2	—	Nevada	38	13	Virginia	122	30
Hawaii	18	—	New Hampshire	26	7	Washington	74	49
Idaho	16	8	New Jersey	115	22	West Virginia	29	1
Illinois	147	82	New Mexico	25	8	Wisconsin	58	31
Indiana	92	40	New York	219	38	Wyoming	7	9
Iowa	31	9	North Carolina	132	26			
Kansas	31	16	North Dakota	8	—			

Total Domestic Stores 3,864 1,377

International Locations. The table below sets forth the number and locations of our international stores included in the Video Game Brands segments in Canada, Europe and Australia as of February 3, 2018:

	Number of Stores
Canada	321
Total Stores - Canada Video Game Brands	321
Australia	425
New Zealand	42
Total Stores - Australia Video Game Brands	467
Austria	28
Denmark	34
Finland	16
France	425
Germany	214
Ireland	50
Italy	379
Norway	29
Sweden	54
Switzerland	18
Total Stores - Europe Video Game Brands	1,247
Total International Stores	2,035
Total Stores	7,276

PowerUp Rewards

We operate loyalty programs in each of the countries in which we operate our Video Game Brands stores. Our U.S. loyalty program, called PowerUp RewardsTM ("PowerUp Rewards"), had over 37 million members as of February 3, 2018 including 16 million whom have purchased at GameStop in the past year. Our loyalty programs in our video game stores in the remaining countries had approximately 19 million members as of February 3, 2018. Our loyalty programs generally offer our customers the ability to sign up for a free or paid membership which gives our customers access to exclusive video game related rewards. The programs' paid memberships may also include a subscription to Game Informer magazine, additional discounts on pre-owned merchandise in our stores and additional credit on trade-ins of pre-owned products. Approximately 6.3 million of the 37.0 million U.S. loyalty members were paying members.

Game Informer

We publish Game Informer, the world's largest print and digital video game publication and website featuring reviews of new title releases, game tips and news regarding current developments in the video game industry. Print and digital versions of the monthly magazine are sold through subscriptions, digitally and through displays in our domestic and international stores. Game Informer magazine is the fourth largest consumer publication in the U.S. and for its December 2017 issue, the magazine had approximately 7.5 million paid subscribers, including more than 2.1 million paid digital magazine subscribers. The digital version of the magazine is the largest subscription digital magazine in the United States. Game Informer is a part of the PowerUp Rewards Pro loyalty program and is a key feature of each paid PowerUp Rewards membership. Operating results from the English version of Game Informer are included in the United States segment as this represents where the majority of subscriptions and sales are generated. Other international version results from Game Informer operations are included in the segment in which the sales are generated.

Vendors

We purchase substantially all of our new products worldwide from approximately 100 manufacturers, software publishers and several distributors. Purchases from the top ten vendors in our Video Game Brands segments accounted for approximately 76% of our new product purchases in fiscal 2017. Nintendo, Sony, Microsoft, Activision Blizzard and Electronic Arts accounted for 22%, 20%, 10%, 6%, and 6%, respectively, of our new product purchases in our Video Game Brands segments during fiscal 2017. We have established price protections with our primary video game product vendors in order to reduce our risk of inventory obsolescence. In addition, we have few purchase contracts with video game trade vendors and generally conduct business on an order-by-order basis, a practice that is typical throughout the industry. We purchase substantially all of our products in our Technology Brands segment through our agreements with AT&T and Apple. We purchase collectibles merchandise from a broad base of domestic and international vendors. We believe that maintaining and strengthening our long-term relationships with our vendors is essential to our operations and continued expansion. We believe that we have very good relationships with our vendors.

Distribution and Information Management

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

Competition

The video game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains; computer product and consumer electronics stores; other video game and PC software specialty stores; toy retail chains; direct sales by software publishers; and online retailers and game rental companies. Video game products are also distributed through other methods such as digital delivery. We also compete with sellers of pre-owned and value video game products. Additionally, we compete with other forms of entertainment activities, including casual and mobile games, movies, television, theater, sporting events and family entertainment centers.

In the U.S., we compete with Wal-Mart Stores, Inc. ("Wal-Mart"); Target Corporation ("Target"); Amazon.com, Inc. ("Amazon.com"); and Best Buy Co., Inc. ("Best Buy"), among others. Throughout Europe we compete with major

consumer electronics retailers such as Media Markt, Saturn and FNAC, major hypermarket chains like Carrefour and Auchan, and online retailer Amazon.com. Competitors in Canada include Wal-Mart and Best Buy. In Australia, competitors include K-Mart, Target and JB HiFi stores.

Our Spring Mobile AT&T branded stores compete with mass market retailers such as Wal-Mart, Best Buy and Target, among others, as well as other pre-paid and post-paid wireless carriers and their distribution channels, including Verizon, Sprint and T-Mobile. Our Simply Mac stores compete with mass-market retailers as noted above.

Seasonality

Our business, like that of many retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2017 and 2016, we generated approximately 38% and 35%, respectively, of our sales during the fourth quarter.

Trademarks

We have a number of trademarks and servicemarks, including “GameStop,” “Game Informer,” “EB Games,” “Electronics Boutique,” “ThinkGeek,” “Zing Pop Culture,” “Spring Mobile,” “Simply Mac,” “Power to the Player” and “PowerUp Rewards,” which have been registered by us with the U.S. Patent and Trademark Office. For many of our trademarks and servicemarks, including “Micromania,” we also have registered or have registrations pending with the trademark authorities throughout the world. We maintain a policy of pursuing registration of our principal marks and opposing any infringement of our marks.

Employees

We have approximately 22,000 full-time salaried and hourly employees and between 25,000 and 45,000 part-time hourly employees worldwide, depending on the time of year. Fluctuation in the number of part-time hourly employees is due to the seasonality of our business. We believe that our relationship with our employees is excellent. Some of our international employees are covered by collective bargaining agreements, while none of our U.S. employees are represented by a labor union or are members of a collective bargaining unit.

Sustainability

We are committed to sustainability and to operating our business in a manner that results in a positive impact to the environment and our communities. Through our trade-in program, we take in software (CDs), gaming consoles and consumer electronics that are otherwise destined for landfills and either refurbish them or recycle them. In 2017 alone, through our U.S. refurbishment center, the company refurbished over six million pieces of software (CDs) and over three million consumer electronic devices, and recycled almost 2.2 million pounds of e-waste. In addition, we continuously measure, and look for cost-effective ways to reduce, our carbon emissions and have seen both our total emissions and emissions by store decrease over the past six years. See the Social Responsibility section of our corporate website (<http://news.gamestop.com>) for further information on our sustainability efforts. We are not incorporating by reference into this Annual Report on Form 10-K information or materials contained on our website or that can be accessed through our website.

Available Information

We make available on our corporate website (<http://news.gamestop.com>), under “Investor Relations — Financial Information,” free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material to the Securities and Exchange Commission (“SEC”). You may read and copy this information or obtain copies of this information by mail from the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC’s Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, like GameStop, who file electronically with the SEC. The address of that site is <http://www.sec.gov>. In addition to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, our Code of Standards, Ethics and Conduct is available on our website under “Investor Relations — Corporate Governance” and is available to our stockholders in print, free of charge, upon written request to the Investor Relations Department at GameStop Corp., 625 Westport Parkway, Grapevine, Texas 76051. The contents of our corporate website are not part of this Annual Report on Form 10-K, or any other report we file, with, or furnish to, the SEC.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

Economic conditions in the U.S. and in certain international markets could adversely affect demand for the products we sell.

Sales of our products involve discretionary spending by consumers. Consumers are typically more likely to make discretionary purchases, including purchasing video game products, when there are favorable economic conditions. Consumer spending may be affected by many economic factors outside of the Company's control. Some of these factors include consumer disposable income levels, consumer confidence in current and future economic conditions, levels of employment, consumer credit availability, consumer debt levels, inflation, political conditions and the effect of weather, natural disasters, and civil disturbances. These and other economic factors could adversely affect demand for our products, which may negatively impact our business, results of operations and financial condition.

The video game industry has historically been cyclical and is affected by the introduction of next-generation consoles, which could negatively impact the demand for existing products or our pre-owned business.

The video game industry has historically been cyclical in nature in response to the introduction and maturation of new technology. Following the introduction of new video game platforms, sales of these platforms and related software and accessories generally increase due to initial demand, while sales of older platforms and related products generally decrease as customers migrate toward the new platforms. In addition, the features of new consoles or changes to the existing generations of consoles, including any future restrictions or conditions or the ability to play prior generation video games on such consoles, may adversely affect our pre-owned business.

The current generation console cycle began when Sony and Microsoft launched the PlayStation 4 and Xbox One in November 2013. Nintendo introduced the Switch in March 2017. If the current video game platforms do not continue to be successful, our sales of video game products could decline. The introduction of next-generation consoles could negatively impact the demand for existing products or our pre-owned business, which could have a negative impact on results of operations and financial condition.

We depend upon the timely delivery of new and innovative products from our vendors.

We depend on manufacturers and publishers to deliver video game hardware, software, and wireless and consumer electronics in quantities sufficient to meet customer demand. In addition, we depend on these manufacturers and publishers to introduce new and innovative products and software titles to drive industry sales. We have experienced sales declines in the past due to a reduction in the number of new software titles available for sale. Any material delay in the introduction or delivery, or limited allocations, of hardware platforms, software titles or wireless devices could result in reduced sales.

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

The interactive entertainment industry is characterized by swiftly changing technology, evolving industry standards, frequent new and enhanced product introductions, rapidly changing consumer preferences and product obsolescence. Video games are now played on a wide variety of mediums, including mobile phones, tablets, social networking websites and other devices. The popularity of browser, mobile and social gaming has increased greatly and this popularity is expected to continue to grow. Browser, mobile and social gaming is accessed through hardware other than the consoles and traditional hand-held video game devices we currently sell. Our business and results of operations may be negatively impacted if we are unable to respond to this growth in popularity of browser, mobile and social gaming and transition our business to take advantage of these new forms of gaming.

In order to continue to compete effectively in the video game industry, we need to respond quickly to technological changes and to understand their impact on our customers' preferences. It may take significant time and resources to respond to these technological changes and changes in consumer preferences. Our business and results of operations may be negatively impacted if we fail to keep pace with these changes.

Technological advances in the delivery and types of video games and PC entertainment software, as well as changes in consumer behavior related to these new technologies, could lower our sales.

The current consoles from Sony, Nintendo, and Microsoft have facilitated download technology. Downloading of video game content to the current generation video game systems continues to grow and take an increasing percentage of new video game sales. If consumers' preference for downloading video game content continues to increase or these consoles and other advances in technology continue to expand our customers' ability to access and download the current format of video games and incremental content for their games through these and other sources, our customers may no longer choose to purchase video games in our stores or reduce their purchases in favor of other forms of game delivery. As a result, our business and results of operations may be negatively impacted.

Our sales of collectibles depend on popularity of and trends in pop culture, and our ability to react to them.

Our sales of collectibles are heavily dependent upon the continued demand by our customers for collectibles, apparel, toys, gadgets, electronics and other retail products for pop culture and technology enthusiasts. The popularity of such products is often driven by movies, television shows, music, fashion and other pop culture influences. The market for, and appeal of, particular types of music, movies, television shows, artists, actors, styles, trends and brands is constantly changing. Our failure to anticipate, identify and react appropriately to changing trends and preferences of customers could lead to, among other things, excess inventories and higher markdowns. There can be no assurance

that the collectibles and related products that we sell will appeal to our customers.

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We depend on licensed products for a substantial portion of our sales of collectibles and our inability to maintain such licenses and obtain new licensed products would adversely affect our sales of collectibles.

We license from others the rights to sell certain of our collectibles and many of these products contain a third party's trademarks, designs and other intellectual property. If we are unable to maintain current licenses or obtain new licensed products with comparable consumer demand, our sales of collectibles would decline. Furthermore, we may not be able to prevent a licensor from choosing not to renew a license with us and/or from licensing a product to one of our competitors.

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

Our financial results depend significantly upon the business terms we can obtain from our suppliers, including competitive prices, unsold product return policies, advertising and market development allowances, freight charges and payment terms. We purchase substantially all of our products directly from manufacturers, software publishers and, in some cases, distributors. Our largest vendors in our Video Game Brands segments are Nintendo, Sony, Microsoft, Activision Blizzard and Electronic Arts, which accounted for 22%, 20%, 10%, 6% and 6%, respectively, of our new product purchases in fiscal 2017. If our suppliers do not provide us with favorable business terms, we may not be able to offer products to our customers at competitive prices.

If our vendors fail to provide marketing and merchandising support at historical levels, our sales and earnings could be negatively impacted.

The manufacturers of video game hardware and software have typically provided retailers with significant marketing and merchandising support for their products. Additionally, AT&T and Apple provide our Technology Brands stores with similar support. As part of this support, we receive cooperative advertising and market development payments from these vendors which enable us to actively promote and merchandise the products we sell and drive sales at our stores and on our websites. We cannot assure you that vendors will continue to provide this support at historical levels. If they fail to do so, our business and results of operations may be negatively impacted.

The profitability of our Technology Brands segment is dependent in large part on our relationship with AT&T and any material adverse change to this relationship would affect our results.

Our Technology Brands segment is primarily conducted through Spring Mobile, an AT&T authorized retailer currently operating 1,329 AT&T branded stores selling pre-paid and post-paid wireless services and products. Therefore, we depend in large part on our relationship with AT&T for the profitability of our Technology Brands segment. We depend on AT&T for constant innovation and the timely delivery of products and services to our stores. Material adverse changes in our relationship with AT&T, including termination of the relationship (which is permissible upon a short notice period), the lack of innovation or failure to timely supply products or competitive service plans, or changes in the manner in which AT&T compensates its authorized retailers, could materially adversely impact the profitability of our Technology Brands segment and our financial condition and results of operations. See Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Segment Performance — Fiscal 2017 compared to Fiscal 2016 — Technology Brands" for additional information.

Our relationship with AT&T restricts our ability to offer products and services in the United States that compete with AT&T in wireless and wireline communications and a variety of technology businesses.

We are a significant retailer of AT&T products and services through our Technology Brands segment. Our agreements with AT&T and its affiliates impose significant restrictions on our ability to offer products and services in the United States that compete with AT&T in wireless and wireline communications and a variety of technology businesses, including several that are adjacent to markets in which we participate or are considering entering, which could materially adversely impact this component of our business.

We have made and may make investments and acquisitions which could negatively impact our business if we fail to successfully complete and integrate them, or if they fail to perform in accordance with our expectations.

To enhance our efforts to grow and compete, we have made and may continue to make investments and acquisitions. Our plans to pursue future transactions are subject to our ability to identify potential candidates and negotiate favorable terms for these transactions. Accordingly, we cannot assure you that future investments or acquisitions will be completed. In addition, to facilitate future transactions, we may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental

effect on the price of our common stock. Also, companies that we have acquired, and that we may acquire in the future, could have products that are in development, and there is no assurance that these products will be successfully developed. Finally, if any acquisitions are not successfully integrated with our business, or fail to perform in accordance with our expectations, our ongoing operations could be adversely affected.

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

The retail environment is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart and Target; computer product and consumer electronics stores, including Best Buy; internet-based retailers such as Amazon.com; other U.S. and international video game and PC software specialty stores located in malls and other locations, such as Carrefour and Media Markt; toy retail chains; direct sales by software publishers; and online retailers and game rental companies. Some of our competitors have longer operating histories and may have greater financial resources than we do or other advantages. In addition, video game products and content are increasingly being digitally distributed and new competitors built to take advantage of these new capabilities are entering the marketplace, and other methods may emerge in the future. We also compete with other sellers of pre-owned video game products and other PC software distribution companies, including Steam. Certain of our mass-merchant competitors are expanding in the market for pre-owned video games through aggressive pricing which may negatively affect our margins, sales and earnings for these products. Additionally, we compete with other forms of entertainment activities, including browser, social and mobile games, movies, television, theater, sporting events and family entertainment centers. Our Technology Brands stores compete with a wide variety of other wireless carriers and retailers and consumer electronics retailers, including AT&T stores that are not operated by us. If we lose customers to our competitors, or if we reduce our prices or increase our spending to maintain our customers, we may be less profitable.

Our business could be adversely affected by the loss of key personnel.

Our success depends upon our ability to attract, motivate and retain a highly trained and engaged workforce, including key management for our stores and skilled merchandising, marketing, financial and administrative personnel. The turnover rate in the retail industry is relatively high, and there is an ongoing need to recruit and train new store employees. Factors that affect our ability to maintain sufficient numbers of qualified employees include employee morale, our reputation, unemployment rates, competition from other employers and our ability to offer appropriate compensation packages. Our inability to recruit a sufficient number of qualified individuals or our failure to retain key employees in the future may have a negative impact on our business and results of operations.

We recently experienced a Chief Executive Officer (“CEO”) transition, as well as other senior management changes. On February 4, 2018, Michael Mauler was appointed CEO. His appointment follows the appointment of Daniel A. DeMatteo as our interim CEO on November 13, 2017 as the result of a medical event experienced by our former CEO, J. Paul Raines. In addition to the CEO change, certain other members of our executive team have recently departed. Any failures in the transition of our executive team could have a material adverse impact on our results of operations, financial condition and the market price of our common stock.

Damage to our reputation could adversely affect our business and our relationships with our customers.

Our continued success depends upon customers' perception of our Company. Any negative publicity relating to our vendors, products, practices or our Company could damage our reputation. The increased use of social media platforms allows for the rapid disbursement of information, including negative feedback or other commentary, which could negatively impact our reputation and result in declines in customer loyalty and adversely affect our results of operations.

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

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

Our international operations expose us to numerous risks.

We have international retail operations in Australia, Canada and Europe. Because release schedules for hardware and software introduction in these markets can sometimes differ from release schedules in the United States, the timing of increases and decreases in foreign sales may differ from the timing of increases and decreases in domestic sales. We are also subject to a number of other factors that may affect our current or future international operations. These include:

- economic downturns, specifically in the regions in which we operate;

•urrency exchange rate fluctuations;
•international incidents;
•natural disasters;
•government instability; and
•competitors entering our current and potential markets.

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Our operations in Europe are also subject to risks associated with the current economic conditions and uncertainties in the European Union (“EU”). In June 2016, voters in the United Kingdom approved the exit of that country from the EU (“Brexit”), and the British government has officially notified the EU that it intends withdrawal the U.K. from the EU. The Brexit vote and related withdrawal negotiations have created significant economic uncertainty in Europe. In addition, European and global economic conditions have been negatively impacted by the inability of certain EU member states to service their sovereign debt obligations. There continues to be uncertainty over the possibility that other EU member states may experience similar financial troubles, the ultimate outcome of the EU governments’ financial support programs, the possible breakup or restructuring of the EU and the possible elimination or restructuring of the EU monetary system. These continued uncertainties could further disrupt European and global economic conditions. Unfavorable economic conditions could negatively impact consumer demand for our products. These factors could negatively impact our business, results of operations and financial condition. We are also subject to risks that our operations outside the United States could be conducted by our employees, contractors, representatives or agents in ways that violate the Foreign Corrupt Practices Act or other similar anti-bribery laws. While we have policies and procedures intended to ensure compliance with these laws, our employees, contractors, representatives and agents may take actions that violate our policies. Moreover, it may be more difficult to oversee the conduct of any such persons who are not our employees, potentially exposing us to greater risk from their actions. Any violations of those laws by any of those persons could have a negative impact on our business.

Changes to tariff and import/export regulations may negatively impact our future financial condition and results of operations.

The United States and other countries have from time to time proposed and enacted protectionist trade policies that could increase the cost or reduce the availability of certain merchandise. In particular, the current U.S. administration has made certain changes to import/export tariffs and international trade agreements. The changes announced and made to date do not impact the merchandise that we offer. Any measures that could impact the cost or availability of the merchandise we offer could have an adverse impact on our business because a significant portion of the products we offer are purchased from foreign vendors and manufactured in foreign countries.

Unfavorable changes in our global tax rate could have a negative impact on our business, results of operations and cash flows.

As a result of our operations in many foreign countries, our global tax rate is derived from a combination of applicable tax rates in the various jurisdictions in which we operate. Depending upon the sources of our income, any agreements we may have with taxing authorities in various jurisdictions and the tax filing positions we take in various jurisdictions, our overall tax rate may be higher than other companies or higher than our tax rates have been in the past. We base our estimate of an annual effective tax rate at any given point in time on a calculated mix of the tax rates applicable to our business and to estimates of the amount of income to be derived in any given jurisdiction. A change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from the tax audits that regularly are in process in any jurisdiction in which we operate could result in an unfavorable change in our overall tax rate, which could have a material adverse impact on our business and results of our operations.

Restrictions on our ability to take trade-ins of and sell pre-owned video game products or pre-owned mobile devices could negatively affect our financial condition and results of operations.

Our financial results depend on our ability to take trade-ins of, and sell, pre-owned video game products and pre-owned mobile devices within our stores. Actions by manufacturers or publishers of video game products or mobile devices, wireless carriers or governmental authorities to prohibit or limit our ability to take trade-ins or sell pre-owned video game products or mobile devices, or to limit the ability of consumers to play pre-owned video games or use pre-owned mobile devices, could have a negative impact on our results of operations.

Sales of video games containing graphic violence may decrease as a result of actual violent events or other reasons, and our financial results may be adversely affected as a result.

Many popular video games contain material with graphic violence. These games receive an “M” or “T” rating from the Entertainment Software Ratings Board. As actual violent events occur and are publicized, or for other reasons, public

acceptance of graphic violence in video games may decline. Consumer advocacy groups may increase their efforts to oppose sales of graphically-violent video games and may seek legislation prohibiting their sales. As a result, our sales of those games may decrease, which could negatively impact our results of operations.

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

Our business, like that of many retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2017, we generated approximately 38% of our sales during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire fiscal year.

Our results of operations may fluctuate from quarter to quarter.

Our results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond our control. These factors include, but are not limited to:

- the timing and allocations of new product releases including new console launches;
- the timing of new store openings or closings;
- shifts in the timing or content of certain promotions or service offerings;
- the effect of changes in tax rates in the jurisdictions in which we operate;
- acquisition costs and the integration of companies we acquire or invest in;
- the mix of earnings in the countries in which we operate;
- the costs associated with the exit of unprofitable markets, businesses or stores; and
- changes in foreign currency exchange rates.

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

Failure to effectively manage our new store openings could lower our sales and profitability.

Our sales and profitability depends in part upon opening new stores and operating them profitably. We opened 46 Video Game Brands stores (including 20 collectibles stores) and opened or acquired 56 Technology Brands stores in fiscal 2017. Our ability to open new stores and operate them profitably depends upon a number of factors, some of which may be beyond our control. These factors include:

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

If we fail to manage new store openings in a timely and cost efficient manner, our growth or profits may decrease. Failure to successfully execute our strategy to close stores and transfer customers and sales to nearby stores could adversely impact our financial results.

Our strategy includes closing stores which are not meeting our performance standards or stores at the end of their lease terms and transferring revenue to other nearby locations. We believe that we can ultimately increase profitability by successfully transferring customers and sales to other stores by marketing directly to the PowerUp Rewards members who have shopped in the stores that we plan to close. If we are unsuccessful in marketing to customers of the stores that we plan to close or in transferring sales to nearby stores, our results of operations could be negatively impacted.

If we are unable to renew or enter into new leases on favorable terms, our revenue may be adversely affected.

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

We rely on centralized facilities for refurbishment of our pre-owned products. Any disruption to these facilities could adversely affect our profitability.

We rely on centralized facilities for the refurbishment of all pre-owned products that we sell. If any disruption occurred at these facilities, whether due to natural disaster or severe weather, or events such as fire, accidents, power outages, systems failures, or other unforeseen causes, sales of our pre-owned products could decrease. Since we

generally obtain higher margins on our pre-owned products, any adverse effect on their sales could adversely affect our profitability.

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

We rely on computerized inventory and management systems to coordinate and manage the activities in our distribution centers, as well as to communicate distribution information to the off-site, third-party operated distribution centers with which we work. The third-party distribution centers pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. We use inventory replenishment systems to track sales and inventory. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week, to keep our stores in stock at optimum levels and to move inventory efficiently. Our systems are subject to damage or interruption from power outages, telecommunications failures, cyber-attacks, security breaches and catastrophic events. If our inventory or management information systems fail to adequately perform their functions, our business could be adversely affected. In addition, if operations in any of our distribution centers were to shut down or be disrupted or if these centers were unable to accommodate stores in a particular region, our business and results of operations may be negatively impacted.

If we do not maintain the security of our member, customer, employee or company information, we could damage our reputation, incur substantial additional costs and become subject to litigation.

An important part of our business involves the receipt, processing and storage of personal information of our customers, members and employees, including, in the case of customers, payment information. We have systems and processes in place that are designed to protect against security and data breaches and unauthorized access to confidential information. Nevertheless, cyber-security risks such as malicious software and attempts to gain unauthorized access to data are rapidly evolving and becoming increasingly sophisticated. Techniques or software used to gain unauthorized access, and/or disable, degrade or harm our systems may be difficult to detect for prolonged periods of time, and we may be unable to anticipate these techniques or put in place protective or preventive measures. These attempts to gain unauthorized access could lead to disruptions in our systems, unauthorized release of confidential or otherwise protected information or corruption of data. If individuals are successful in infiltrating, breaking into, disrupting, damaging or otherwise stealing from the computer systems of the Company or its third-party providers, we may have to make a significant investment to fix or replace them, and may suffer interruptions in our operations in the interim, including interruptions in our ability to accept payment from customers and our ability to issue and redeem loyalty points under our Power Up Rewards program. Such an event may also expose us to costly litigation, government investigations, government enforcement actions, fines and/or lawsuits and may significantly harm our reputation with our members and customers. We are continuously working to install new, and upgrade our information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to protect our member, customer, employee, and company data against cyber risks and security breaches. Despite these efforts, we have experienced cybersecurity attacks in the past and there is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against future data security breaches. While past cybersecurity attacks have not resulted in material losses, a data security breach or any failure by us to comply with applicable privacy and information security laws and regulations could materially impact our business and our results of operations. Moreover, a data security breach or change in applicable privacy or security laws or regulations could require us to devote significant management resources to address the problems created by the breach or such change in laws or regulations and to expend significant additional resources to upgrade further the security measures that we employ to guard against such breaches or to comply with such change in laws or regulations, which could disrupt our business, operations and financial condition.

Litigation and the outcomes of such litigation could negatively impact our future financial condition and results of operations.

In the ordinary course of our business, we are, from time to time, subject to various litigation and legal proceedings, including matters involving wage and hour employee class actions, stockholder and consumer class actions, tax audits and unclaimed property audits by states. The outcome of litigation and other legal proceedings and the magnitude of potential losses therefrom, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Certain of these legal proceedings, if decided adversely to us or settled by us, may require changes to our business operations that negatively impact our operating results or involve significant liability awards that impact our financial

condition. The cost to defend litigation may be significant. As a result, legal proceedings may adversely affect our business, financial condition, results of operations or liquidity. See Item 3. "Legal Proceedings."

Legislative actions and changes in accounting rules may cause our general and administrative and compliance costs to increase and impact our future financial condition and results of operations.

In order to comply with laws adopted by the U.S. government or other U.S. or foreign regulatory bodies, we may be required to increase our expenditures and hire additional personnel and additional outside legal, accounting and advisory services, all of which may cause our general and administrative and compliance costs to increase. Significant workforce-related legislative changes could increase our expenses and adversely affect our operations. Examples of possible workforce-related legislative changes include changes to an employer's obligation to recognize collective bargaining units, the process by which collective bargaining agreements are negotiated or imposed, minimum wage requirements, and health care mandates. In addition, changes in the regulatory environment affecting Medicare reimbursements, product safety, supply chain transparency, and increased

compliance costs related to enforcement of federal and state wage and hour statutes and common law related to overtime, among others, could cause our expenses to increase without an ability to pass through any increased expenses through higher prices. Environmental legislation or other regulatory changes could impose unexpected costs or impact us more directly than other companies due to our operations as a global retailer. Specifically, environmental legislation or international agreements affecting energy, carbon emissions, and water or product materials are continually being explored by governing bodies. Increasing energy and fuel costs, supply chain disruptions and other potential risks to our business, as well as any significant rule making or passage of any such legislation, could materially increase the cost to transport our goods and materially adversely affect our results of operations. Additionally, regulatory and enforcement activity focused on the retail industry has increased in recent years, increasing the risk of fines and additional operational costs associated with compliance.

As a seller of certain consumer products, we are subject to various federal, state, local and international laws, regulations, and statutes relating to product safety and consumer protection.

While we take steps to comply with these laws, there can be no assurance that we will be in compliance, and failure to comply with these laws could result in litigation, regulatory action and penalties which could have a negative impact on our business, financial condition and results of operations. In addition, our suppliers might not adhere to product safety requirements and the Company and those suppliers may therefore be subject to involuntary or voluntary product recalls or product liability lawsuits. Direct costs, lost sales and reputational damage associated with product recalls, government enforcement actions or product liability lawsuits, individually or in the aggregate, could have a negative impact on future revenues and results of operations.

Our Board of Directors could change our dividend policy at any time.

We initiated our first cash dividend on our common stock during fiscal 2012. Notwithstanding the foregoing, there is no assurance that we will continue to pay cash dividends on our common stock in the future. Certain provisions in our credit facility and covenants under the indentures for our 5.50% Senior Notes due October 1, 2019 (the "2019 Senior Notes") and our 6.75% Senior Notes due March 15, 2021 (the "2021 Senior Notes" and, together, the "Senior Notes"), restrict our ability to pay dividends in certain circumstances. In addition, subject to any financial covenants in current or future financing agreements that directly or indirectly restrict our ability to pay dividends, the payment of dividends is within the discretion of our Board of Directors and will depend upon our future earnings and cash flow from operations, our capital requirements, our financial condition and any other factors that the Board of Directors may consider. Unless we continue to pay cash dividends on our common stock in the future, the success of an investment in our common stock will depend entirely upon its future appreciation. Our common stock may not appreciate in value or even maintain the price at which it was purchased.

We recognized substantial impairment charges in fiscal 2017 and any future impairment charges on our goodwill and intangible assets could negatively impact our results of operations.

Our consolidated balance sheet at February 3, 2018 included goodwill and intangible assets, net totaling \$1.8 billion. Goodwill and certain intangible assets arise from acquisitions and are not amortized as they have indefinite useful lives. Other intangible assets are amortized over their estimated economic useful lives. We are required to evaluate goodwill and other intangible assets not subject to amortization for impairment at least annually. This annual test is completed at the beginning of the fourth quarter of each fiscal year or when circumstances indicate the carrying value of the goodwill or other intangible assets might be impaired. The impairment test requires numerous assumptions such as, among others, future sales trends, operating margins, store count and capital expenditures. In addition, changes in our market capitalization may impact certain assumptions in our annual impairment test. If our actual financial results in the future are below our projections or if our stock price experiences a sustained decline, we may be required to record significant impairment charges associated with our goodwill and intangible assets, which would negatively impact our results of operations. In fiscal 2017, we recorded impairment charges of \$339.8 million and \$32.8 million associated with our intangible assets and goodwill, respectively. In fiscal 2016, we recorded intangible asset impairment charges totaling \$14.4 million. See "Goodwill" and "Indefinite-lived Intangible Assets" in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Use of Estimates" for additional information.

Risks Relating to Indebtedness

Because of our floating rate credit facility, we may be adversely affected by interest rate changes.

Our financial position may be affected by fluctuations in interest rates, as our senior credit facility is subject to floating interest rates.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. If we were to borrow against our senior credit facility, a significant increase in interest rates could have a negative impact on our results of operations and financial condition.

The terms of our Senior Notes and senior credit facility may impose significant operating and financial restrictions on us.

The terms of our Senior Notes and our senior credit facility may impose significant operating and financial restrictions on us in certain circumstances. These restrictions, among other things, limit our ability to:

- incur, assume or permit to exist additional indebtedness or guaranty obligations;
- incur liens or agree to negative pledges in other agreements;
- engage in sale and leaseback transactions;
- make loans and investments;
- declare dividends, make payments or redeem or repurchase capital stock;
- engage in mergers, acquisitions and other business combinations;
- prepay, redeem or purchase certain indebtedness;
- amend or otherwise alter the terms of our organizational documents and indebtedness;
- sell assets; and
- engage in transactions with affiliates.

We cannot assure that these covenants will not adversely affect our ability to finance our future operations or capital needs or to pursue available business opportunities. A breach of the covenants or restrictions under the indentures for the Senior Notes, or under our senior credit facility, could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the repayment of the related debt and may result in the acceleration of the repayment of any other debt to which a cross-acceleration or cross-default provision applied. In addition, an event of default under our senior credit facility would permit the lenders to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay the amounts due and payable under our senior credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event that our lenders or noteholders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. See Note 9, "Debt," to our consolidated financial statements for a description of our Senior Notes and senior credit facility.

To service our indebtedness, we will require a significant amount of cash. We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our indebtedness, including without limitation any payments required to be made under our senior credit facility or to holders of our Senior Notes, and to fund our operations, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, including interest payments and the payment of principal at maturity, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, including the Senior Notes, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot provide assurance that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, that additional financing could be obtained on acceptable terms, if at all, or if that additional financing would be permitted under the terms of our various debt instruments, then in effect.

Our senior credit facility and the indentures governing the Senior Notes restrict our ability to dispose of assets and use the proceeds from those sales and raise debt or equity to meet any debt service obligations then due. Our ability to refinance would also depend upon the condition of the finance and credit markets. Our inability to generate sufficient cash flow to satisfy our debt obligations, including the Senior Notes, or to refinance our obligations on commercially reasonable terms or on a timely basis, would have a negative impact on our business, results of operations and financial condition.

Despite current indebtedness levels, we and our subsidiaries may still be able to incur additional debt. This could further increase the risks associated with our leverage.

We are able to incur additional indebtedness. Although our senior credit facility and the indentures for our Senior Notes contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness.

Such future indebtedness or obligations may have restrictions similar to, or more restrictive than, those included in the indentures for our Senior Notes or our senior credit facility. The incurrence of additional indebtedness could impact our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

All of our stores are leased. Store leases typically provide for an initial lease term of five to ten years, plus renewal options. This arrangement gives us the flexibility to pursue extension or relocation opportunities that arise from changing market conditions. We believe that, as current leases expire, we will be able to obtain either renewals at present locations, leases for equivalent locations in the same area, or be able to close the stores with expiring leases and transfer enough of the sales to other nearby stores to improve, if not at least maintain, profitability.

The terms of the store leases for the 7,276 leased stores open as of February 3, 2018 expire as follows:

Lease Terms to Expire During (12 Months Ending on or About January 31)	Number of Stores
2019	2,463
2020	1,875
2021	1,418
2022	609
2023 and later	911
Total	7,276

As of February 3, 2018, we owned seven and leased 11 office and distribution facilities, totaling approximately 2.1 million square feet. The lease expiration dates for the leased facilities range from 2018 to 2024, with an average remaining lease life of approximately four years. Our principal facilities are as follows:

Location	Square Footage	Owned or Leased	Use
Grapevine, Texas, USA	519,000	Owned	Distribution and administration
Grapevine, Texas, USA	182,000	Owned	Manufacturing and distribution
Shepherdsville, Kentucky, USA	631,000	Leased	Distribution
Brampton, Ontario, Canada	119,000	Owned	Distribution and administration
Eagle Farm, Queensland, Australia	185,000	Owned	Distribution and administration
Milan, Italy	123,000	Owned	Distribution and administration

Additional information regarding our properties can be found in Item 1, “Business—Store Operations” and Item 1, “Business—Site Selection and Locations” in this Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

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

Certain of our French subsidiaries have been under audit by the French Tax Administration (the “FTA”) for fiscal years 2008 through 2015. We received tax reassessment notices pursuant to which the FTA asserted that the French subsidiaries were ineligible to claim certain tax deductions from November 4, 2008, through January 31, 2013, which has resulted in a tax collection notice received on January 16, 2018 in the amount of approximately €80.0 million. We may receive additional tax reassessments in material amounts for subsequent fiscal years. We filed a response to each reassessment and intend to vigorously contest the reassessments through administrative procedures. If we are unable to resolve this matter through administrative remedies at the FTA, we plan to pursue judicial remedies. We believe our tax positions will be sustained and have not taken a reserve for any potential adjustment based on the reassessment. If we were not to prevail, then the adjustment to our income tax provision could be material.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

Our Class A Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "GME." The following table sets forth, for the periods indicated, the high and low sales prices of the Class A Common Stock on the NYSE Composite Tape and the dividends declared during those periods:

	Class A Common Stock Sales				Dividends	
	Prices				Declared	
	Fiscal 2017		Fiscal 2016		Fiscal Year	
	High	Low	High	Low	2017	2016
Fourth Quarter	\$20.31	\$15.85	\$26.85	\$20.10	\$0.38	\$0.37
Third Quarter	\$22.37	\$18.47	\$32.67	\$23.69	0.38	0.37
Second Quarter	\$25.31	\$20.26	\$32.86	\$25.18	0.38	0.37
First Quarter	\$26.68	\$20.24	\$33.72	\$24.75	0.38	0.37
					\$1.52	\$1.48

On February 20, 2018, our Board of Directors declared a quarterly cash dividend of \$0.38 per share of Class A Common Stock payable March 20, 2018. Our payment of dividends is and will continue to be restricted by or subject to, among other limitations, applicable provisions of federal and state laws, our earnings and various business considerations, including our financial condition, results of operations, cash flow, the level of our capital expenditures, our future business prospects, our status as a holding company and such other matters that our Board of Directors deems relevant. In addition, the terms of the senior credit facility and of the indentures governing our Senior Notes restrict our ability to pay dividends under certain circumstances. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" herein for further information regarding restrictions on our dividend payments.

Approximate Number of Holders of Common Equity

As of March 22, 2018, there were approximately 1,397 record holders of our Class A Common Stock.

Stock Comparative Performance Graph

The following graph compares the cumulative total stockholder return on our Class A Common Stock for the period commencing February 1, 2013 through February 2, 2018 (the last trading date of fiscal 2017) with the cumulative total return on the Standard & Poor’s 500 Stock Index (the “S&P 500”) and the Dow Jones Retailers, Other Specialty Industry Group Index (the “Dow Jones Specialty Retailers Index”) over the same period. Total return values were calculated based on cumulative total return assuming (i) the investment of \$100 in our Class A Common Stock, the S&P 500 and the Dow Jones Specialty Retailers Index on February 1, 2013 and (ii) reinvestment of dividends.

The following stock performance graph and related information shall not be deemed “soliciting material” or “filed” with the SEC, nor should such information be incorporated by reference into any future filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference in such filing.

	2/1/2013	1/31/2014	1/30/2015	1/29/2016	1/27/2017	2/2/2018
GME	\$ 100.00	\$ 146.50	\$ 152.39	\$ 117.48	\$ 114.86	\$ 84.57
S&P 500 Index	\$ 100.00	\$ 117.81	\$ 131.84	\$ 128.22	\$ 151.65	\$ 186.49
Dow Jones Specialty Retailers Index	\$ 100.00	\$ 127.80	\$ 159.15	\$ 163.09	\$ 188.21	\$ 244.29

Securities Authorized for Issuance under Equity Compensation Plans

For information regarding securities authorized for issuance under equity compensation plans, refer to Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial and operating data for the periods ended and as of the dates indicated. Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal year ended February 3, 2018 ("fiscal 2017") consisted of 53 weeks. The fiscal years ended January 28, 2017 ("fiscal 2016"), January 30, 2016 ("fiscal 2015"), January 31, 2015 ("fiscal 2014") and February 1, 2014 ("fiscal 2013") consisted of 52 weeks. The "Statement of Operations Data" for fiscal 2017, fiscal 2016 and fiscal 2015 and the "Balance Sheet Data" as of February 3, 2018 and January 28, 2017 are derived from our audited consolidated financial statements which are included elsewhere in this Form 10-K. The "Statement of Operations Data" for fiscal 2014 and fiscal 2013, and the "Balance Sheet Data" as of January 29, 2016, January 31, 2015 and February 1, 2014 are derived from our consolidated financial statements, available at sec.gov, which are not included elsewhere in this Annual Report on Form 10-K.

The selected financial data set forth below should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included in this Annual Report on Form 10-K.

	Fiscal Year					
	2017	2016	2015	2014	2013	
	(In millions, except statistical and per share data)					
Statement of Operations Data:						
Net sales	\$9,224.6	\$8,607.9	\$9,363.8	\$9,296.0	\$9,039.5	
Cost of sales	6,184.5	5,598.6	6,445.5	6,520.1	6,378.4	
Gross profit	3,040.1	3,009.3	2,918.3	2,775.9	2,661.1	
Selling, general and administrative expenses	2,363.0	2,252.6	2,108.9	2,001.0	1,892.4	
Depreciation and amortization	150.7	165.2	156.6	154.4	166.5	
Goodwill impairments ⁽¹⁾	32.8	—	—	—	10.2	
Asset impairments ⁽²⁾	358.0	33.8	4.6	2.2	18.5	
Operating earnings	135.6	557.7	648.2	618.3	573.5	
Interest expense, net	55.3	53.0	23.0	10.0	4.7	
Earnings before income tax expense	80.3	504.7	625.2	608.3	568.8	
Income tax expense	45.6	151.5	222.4	215.2	214.6	
Net income	\$34.7	\$353.2	\$402.8	\$393.1	\$354.2	
Per Share Data:						
Earnings per share — Basic	\$0.34	\$3.42	\$3.80	\$3.50	\$3.02	
Earnings per share — Diluted	\$0.34	\$3.40	\$3.78	\$3.47	\$2.99	
Dividends per common share	\$1.52	\$1.48	\$1.44	\$1.32	\$1.10	
Weighted-average common shares outstanding:						
Basic	101.4	103.4	106.0	112.2	117.2	
Diluted	101.5	103.8	106.7	113.2	118.4	
Store Operating Data:						
Comparable store sales increase (decrease) ⁽³⁾	5.8	% (11.0))% 4.3	% 3.4	% 3.8	%
Inventory turnover	4.6	4.5	5.2	5.7	5.3	
Number of Stores by Segment at Fiscal Year End:						
United States	3,864	3,944	4,013	4,138	4,249	
Canada	321	322	325	331	335	
Australia	467	464	444	421	418	
Europe	1,247	1,283	1,299	1,316	1,455	
Technology Brands	1,377	1,522	1,036	484	218	
Total	7,276	7,535	7,117	6,690	6,675	
Balance Sheet Data at Fiscal Year End:						
Working capital ⁽⁴⁾	\$623.1	\$379.2	\$143.1	\$421.5	\$223.6	
Total assets ⁽⁴⁾	\$5,041.6	\$4,975.9	\$4,330.3	\$4,240.4	\$4,091.4	

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Total debt, net ⁽⁴⁾⁽⁵⁾	\$817.9	\$815.0	\$345.4	\$349.8	\$4.0
Total liabilities ⁽⁴⁾	\$2,827.1	\$2,721.8	\$2,249.3	\$2,172.7	\$1,840.0
Total stockholders' equity	\$2,214.5	\$2,254.1	\$2,081.0	\$2,067.7	\$2,251.4

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In fiscal 2017, we recognized a goodwill impairment charge of \$32.8 million associated with our Technology Brands segment. In fiscal 2013, we recognized a goodwill impairment charge of \$10.2 million related to our decision to abandon our investment in Spawn Labs.

Asset impairment charges recognized in fiscal 2017 are primarily associated with intangible assets in our Technology Brands segment; see Note 6, "Goodwill and Intangible Assets," to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information. Also included in these charges were \$18.2 million of other asset impairments, primarily associated with store-level property and equipment. Asset impairment charges recognized in fiscal 2016 include \$19.4 million of store-level property and equipment impairments, a \$7.4 million impairment to our Micromania trade name and a \$7.0 million impairment to our Simply Mac dealer agreements. Asset impairment charges in fiscal 2015 and 2014 were primarily related to store-level property and equipment. Asset impairment charges in fiscal 2013 include \$9.0 million related to store-level property and equipment and \$9.5 million related to certain technology assets and other intangible assets as a result of our decision to abandon our investment in Spawn Labs.

Comparable store sales is a measure commonly used in the retail industry and indicates store performance by measuring the growth in sales for certain stores for a particular period over the corresponding period in the prior year. Our comparable store sales are comprised of sales from our Video Game Brands stores, including stand-alone collectible stores, operating for at least 12 full months as well as sales related to our websites and sales we earn from sales of pre-owned merchandise to wholesalers or dealers. Comparable store sales for our international operating segments exclude the effect of changes in foreign currency exchange rates. The calculation of comparable store sales for fiscal year 2017 compares the 53 weeks for the period ended February 3, 2018 to the most closely comparable weeks for the prior year period. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods. Our Technology Brands stores are excluded from the calculation of comparable store sales. We do not consider comparable store sales to be a meaningful metric in evaluating the performance of our Technology Brands stores due to the frequently changing nature of revenue streams and commission structures associated with this segment of our business. Instead, we measure the performance of our Technology Brands stores by using comparable store gross profit, which is calculated using a similar methodology as comparable store sales, but replacing sales with gross profit in the calculation. During the 53 weeks ended February 3, 2018, comparable store gross profit for our Technology Brands stores declined 13.1%. We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer who provides its consumers several ways to access its products.

In the first quarter of 2016, we adopted Accounting Standard Update 2015-03, Simplifying the Presentation of Debt Issuance Costs, that requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. As a result, we have recast the fiscal 2015 and 2014 consolidated balance sheet to conform to the current period presentation.

In March 2016, we issued \$475 million aggregate principal of 6.75% unsecured senior notes due in March 2021. In September 2014, we issued \$350.0 million aggregate principal of 5.50% unsecured senior notes due in October 2019. See Note 9, "Debt," to our consolidated financial statements for additional information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear elsewhere in this Form 10-K, including the factors disclosed under Part I, Item 1A, "Risk Factors."

OVERVIEW

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") is a global family of specialty retail brands that makes the most popular technologies affordable and simple. Within our family of brands, we are the world's largest omnichannel video game retailer, the largest AT&T® ("AT&T") authorized retailer, the largest Apple® ("Apple") certified products reseller, and the owner of www.thinkgeek.com, one of the world's largest sellers of collectible pop-culture themed products. As of February 3, 2018, GameStop's retail network and family of brands include 7,276 company-operated stores in the United States, Canada, Australia and Europe.

We have five reportable segments, which are comprised of four geographic Video Game Brands segments—United States, Canada, Australia and Europe—and a Technology Brands segment. Our Technology Brands segment includes our Spring Mobile and Simply Mac businesses. Spring Mobile owns and operates our AT&T branded wireless retail stores.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal year 2017 consisted of the 53 weeks ended on February 3, 2018 ("fiscal 2017"). Fiscal year 2016 consisted of the 52 weeks ended on January 28, 2017 ("fiscal 2016") and fiscal year 2015 consisted of the 52 weeks ended on January 30, 2016 ("fiscal 2015").

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

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

In our discussion of the results of operations, we refer to comparable store sales, which is a measure commonly used in the retail industry and indicates store performance by measuring the growth in sales for certain stores for a particular period over the corresponding period in the prior year. Our comparable store sales are comprised of sales from our Video Game Brands stores, including stand-alone collectible stores, operating for at least 12 full months as well as sales related to our websites and sales we earn from sales of pre-owned merchandise to wholesalers or dealers. Comparable store sales for our international operating segments exclude the effect of changes in foreign currency exchange rates. The calculation of comparable store sales for fiscal year 2017 compares the 53 weeks for the period ended February 3, 2018 to the most closely comparable weeks for the prior year. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods. We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer that provides its consumers several ways to access its products.

Our Technology Brands stores are excluded from the calculation of comparable store sales. We do not consider comparable store sales to be a meaningful metric in evaluating the performance of our Technology Brands stores due to the frequently changing nature of revenue streams and commission structures associated with this segment of our business. Instead, we measure the performance of our Technology Brands stores by using comparable store gross profit, which is calculated using a similar methodology as comparable stores sales, but replacing sales with gross profit in the calculation. Our method of calculating comparable store gross profit may not be the same as other retailers' methods.

STORE COUNT INFORMATION

The following table presents the number of stores and the number of stores opened, acquired and closed during fiscal 2017:

	January 28, 2017	Opened/Acquired	Disposed	February 3, 2018
Video Game Stores	5,927	26	(157)	5,796
Collectibles Stores	86	20	(3)	103
Total Video Game Brands	6,013	46	(160)	5,899
Spring Mobile	1,403	56	(130)	1,329
Cricket	69	6	(75)	—
Simply Mac	50	—	(2)	48
Total Technology Brands	1,522	62	(207)	1,377
Total Stores	7,535	108	(367)	7,276

SEASONALITY

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

CONSOLIDATED RESULTS OF OPERATIONS

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

	Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2015	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Net sales	\$9,224.6	100.0%	\$8,607.9	100.0%	\$9,363.8	100.0%
Cost of sales	6,184.5	67.0	5,598.6	65.0	6,445.5	68.8
Gross profit	3,040.1	33.0	3,009.3	35.0	2,918.3	31.2
Selling, general and administrative expenses	2,363.0	25.6	2,252.6	26.2	2,108.9	22.6
Depreciation and amortization	150.7	1.6	165.2	1.9	156.6	1.7
Goodwill impairments	32.8	0.4	—	—	—	—
Asset impairments	358.0	3.9	33.8	0.4	4.6	—
Operating earnings	135.6	1.5	557.7	6.5	648.2	6.9
Interest expense, net	55.3	0.6	53.0	0.6	23.0	0.2
Earnings before income tax expense	80.3	0.9	504.7	5.9	625.2	6.7
Income tax expense	45.6	0.5	151.5	1.8	222.4	2.4
Net income	\$34.7	0.4 %	\$353.2	4.1 %	\$402.8	4.3 %

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

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

	Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2015	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
New video game hardware ⁽¹⁾	\$1,791.8	19.4 %	\$1,396.7	16.2 %	\$1,944.7	20.8 %
New video game software	2,582.0	28.0	2,493.4	29.0	2,905.1	31.0
Pre-owned and value video game products	2,149.6	23.3	2,254.1	26.2	2,374.7	25.4
Video game accessories	784.3	8.5	676.7	7.9	703.0	7.5
Digital	189.2	2.1	181.0	2.1	188.3	2.0
Technology Brands ⁽²⁾	803.6	8.7	814.0	9.5	534.0	5.7
Collectibles	636.2	6.9	494.1	5.7	309.7	3.3
Other ⁽³⁾	287.9	3.1	297.9	3.4	404.3	4.3
Total	\$9,224.6	100.0%	\$8,607.9	100.0%	\$9,363.8	100.0%

	Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2015	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
New video game hardware ⁽¹⁾	\$163.1	9.1 %	\$154.2	11.0 %	\$175.5	9.0 %
New video game software	590.3	22.9	600.4	24.1	689.3	23.7
Pre-owned and value video game products	977.1	45.5	1,044.1	46.3	1,114.5	46.9
Video game accessories	255.0	32.5	235.2	34.8	255.5	36.3
Digital	162.4	85.8	155.5	85.9	149.6	79.4
Technology Brands ⁽²⁾	594.0	73.9	554.6	68.1	306.6	57.4
Collectibles	208.2	32.7	171.6	34.7	116.6	37.6
Other ⁽³⁾	90.0	31.3	93.7	31.5	110.7	27.4
Total	\$3,040.1	33.0 %	\$3,009.3	35.0 %	\$2,918.3	31.2 %

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

(2) Includes mobile and consumer electronics sold through our Technology Brands segment, which includes the operations of our Spring Mobile managed AT&T stores, Simply Mac stores and Cricket Wireless branded stores, which were sold in January 2018.

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

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Fiscal 2017 Compared to Fiscal 2016

	Fiscal Year		Change	
	2017	2016	\$	%
	(\$ in millions)			
Net sales	\$9,224.6	\$8,607.9	\$616.7	7.2 %
Cost of sales	6,184.5	5,598.6	585.9	10.5
Gross profit	3,040.1	3,009.3	30.8	1.0
Selling, general and administrative expenses	2,363.0	2,252.6	110.4	4.9
Depreciation and amortization	150.7	165.2	(14.5)	(8.8)
Goodwill impairments	32.8	—	32.8	n/a
Asset impairments	358.0	33.8	324.2	959.2
Operating earnings	135.6	557.7	(422.1)	(75.7)
Interest expense, net	55.3	53.0	2.3	4.3
Earnings before income tax expense	80.3	504.7	(424.4)	(84.1)
Income tax expense	45.6	151.5	(105.9)	(69.9)
Net income	\$34.7	\$353.2	\$(318.5)	(90.2)%

	Net Sales		Change	
	Fiscal Year	Fiscal Year	\$	%
	(\$ in millions)			
	2017	2016		
New video game hardware ⁽¹⁾	\$1,791.8	\$1,396.7	\$395.1	28.3 %
New video game software	2,582.0	2,493.4	88.6	3.6
Pre-owned and value video game products	2,149.6	2,254.1	(104.5)	(4.6)
Video game accessories	784.3	676.7	107.6	15.9
Digital	189.2	181.0	8.2	4.5
Technology Brands ⁽²⁾	803.6	814.0	(10.4)	(1.3)
Collectibles	636.2	494.1	142.1	28.8
Other ⁽³⁾	287.9	297.9	(10.0)	(3.4)
Total	\$9,224.6	\$8,607.9	\$616.7	7.2 %

	Gross Profit		Change	
	Fiscal Year	Fiscal Year	\$	%
	(\$ in millions)			
	2017	2016		
New video game hardware ⁽¹⁾	\$163.1	\$154.2	\$8.9	5.8 %
New video game software	590.3	600.4	(10.1)	(1.7)
Pre-owned and value video game products	977.1	1,044.1	(67.0)	(6.4)
Video game accessories	255.0	235.2	19.8	8.4
Digital	162.4	155.5	6.9	4.4
Technology Brands ⁽²⁾	594.0	554.6	39.4	7.1
Collectibles	208.2	171.6	36.6	21.3
Other ⁽³⁾	90.0	93.7	(3.7)	(3.9)
Total	\$3,040.1	\$3,009.3	\$30.8	1.0 %

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

(2) Includes mobile and consumer electronics sold through our Technology Brands segment, which includes the operations of our Spring Mobile managed AT&T stores, Simply Mac stores and Cricket Wireless branded stores, which were sold in January 2018.

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Includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer (3)electronics sold through our Video Game Brands segments, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

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Net Sales

Net sales increased \$616.7 million, or 7.2%, in fiscal 2017 compared to fiscal 2016. Sales for the 53rd week included in fiscal 2017 were approximately \$142.6 million. The increase in net sales was primarily attributable to an increase in comparable store sales of 5.8% compared to the prior year and the positive impact of foreign exchange rate fluctuations of \$104.6 million. The increase in comparable store sales was primarily the result of an increase in sales of new video game hardware, collectibles, video game accessories and new video game software. The increase in sales in collectibles are a result of the Company's diversification strategy. These increases were partially offset by an decrease in sales in pre-owned and value video game products.

The increase in net sales was due to the following:

New video game hardware sales increased \$395.1 million, or 28.3%, for fiscal 2017 as compared to fiscal 2016, primarily due to the launch of the Nintendo Switch in March 2017, which was partially offset by decreases in sales of other consoles as their cycles mature.

Collectibles sales increased \$142.1 million