ALLSCRIPTS HEALTHCARE SOLUTIONS INC
Form FWP
February 21, 2006

FREE WRITING PROSPECTUS **Filed Pursuant to Rule 433**

Dated February 21, 2006 **Registration No. 333 129816**

February 21, 2006

Relating to Preliminary

Prospectus Supplement

dated February 13, 2006

This free writing prospectus should be read together with the preliminary prospectus supplement dated February 13, 2006 and the prospectus dated February 13, 2006 (including the documents incorporated by reference in the preliminary prospectus supplement), relating to the offering of our common stock described in the preliminary prospectus supplement and prospectus.

Unless this free writing prospectus indicates otherwise or the context otherwise requires (i) the terms we, our, issuer , us, Allscripts and the Company refer to Allscripts Healthcare Solutions, Inc. and its consolidated subsidiaries, (ii) the term A4 refers to A4 Health Systems, Inc. and its consolidated subsidiaries, (iii) references to the A4 Acquisition mean the consummation of our acquisition of A4, as described in the preliminary prospectus supplement, (iv) the term GE refers to General Electric Company, (v) the term IDX refers to IDX Systems Corporation, a wholly owned subsidiary of GE and (vi) the term IIC refers to IDX Investment Corporation, a wholly owned subsidiary of IDX.

IDX Stock Repurchase

On February 21, 2006, we entered into a purchase agreement with GE, IDX and IIC (which entities we collectively refer to as the GE Entities), pursuant to which we agreed to repurchase from IDX 1,250,000 shares of our common stock at a price per share equal to 95% of the public offering price per share in this offering, which is the net price per share we will receive in this offering. Based on an assumed public offering price of $18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006), we will repurchase the 1,250,000 shares at a price equal to $17.30 per share for a total purchase price of approximately $21.6 million. We will fund the repurchase with available cash. The closing of the repurchase is contingent on the closing of this offering. The terms of the purchase agreement also provide that the GE Entities will not sell any of the remaining shares of our common stock that they own for 60 days from the date of the prospectus supplement relating to this offering, subject to certain exceptions.

After completion of this offering and the IDX stock repurchase (based on 40,873,047 shares of our common stock outstanding as of December 31, 2005), IDX will beneficially own 5,827,138 shares of our common stock or approximately 12.4% of our outstanding shares.

Supplemental Risk Factor Related to our Common Stock

Future sales of our common stock in the public market could adversely affect the trading price of our common stock and our ability to raise funds in new securities offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. As of September 30, 2005, we had:

40,756,971 shares of common stock outstanding;

3,333 shares of common stock reserved for issuance upon exercise of outstanding warrants;

8,687,754 shares of common stock reserved and available for issuance pursuant to stock options and other awards outstanding under our stock plans as of September 30, 2005 at a weighted average exercise price of $7.64 per share;

903,942 additional shares of common stock reserved and available for issuance under our stock plans; and

7,329,424 shares of common stock reserved for issuance upon conversion of our outstanding 3.50% convertible senior debentures. The number of shares issuable upon conversion of these debentures is subject to adjustment from time to time pursuant to anti-dilution provisions.

On February 21, 2006, we entered into a purchase agreement with the GE Entities pursuant to which we agreed to repurchase from IDX 1,250,000 shares of our common stock at a price per share equal to 95% of the public offering price per share in this offering, which is the net price per share we will receive in this offering. The closing of the repurchase is contingent on the closing of this offering. The terms of the purchase agreement also provide that the GE Entities will not sell any of the remaining shares of our common stock that they own for 60 days from the date of the prospectus supplement relating to this offering, subject to certain exceptions. After completion of this offering and the IDX stock repurchase (based on 40,873,047 shares of our common stock outstanding as of December 31, 2005), IDX will beneficially own 5,827,138 shares of our common stock or approximately 12.4% of our outstanding shares. We are a party to a stock rights and restrictions agreement with IDX which may impose restrictions on the ability of the GE Entities to sell shares of our common stock after the expiration of the 60-day period described above and the manner of such future sales. However, the GE Entities retain the ability to sell substantial amounts of our common stock in the public market. Sales of substantial amounts of our common stock by the GE Entities in the public market, or the perception that such sales could occur, could adversely affect the prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity related securities, including this offering.

Subsequent to September 30, 2005, we granted options to purchase 7,500 additional shares of common stock and granted restricted stock awards with respect to 364,950 additional shares of our common stock under our stock plans. Upon completion of this offering and the stock repurchase described above, we will have 46,998,000 shares of common stock outstanding. All shares sold in the concurrent offering will be freely tradable without restrictions or further registration under the Securities Act of 1933, as amended. In addition, the number of shares of common stock to be outstanding immediately after this offering does not include 3,500,000 shares of common stock that we expect to issue upon consummation of the A4 Acquisition as described under The A4 Acquisition in the preliminary prospectus supplement. Although certain of these shares are being held in an indemnity escrow account and certain of the A4 shareholders have agreed to a lock-up with respect to these shares, these shares will generally be freely tradeable pursuant to Rule 145 of the Securities Act; provided that affiliates of A4 will be required to comply with certain of the resale restrictions set forth in Rule 144 of the Securities Act. In addition, in connection with our acquisition strategy, we may issue shares of our common stock as consideration in other acquisition transactions. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the trading price of our common stock.

Our outstanding 3.50% convertible senior debentures are convertible at the option of the holders into shares of our common stock, subject to the certain conditions set forth in the indenture governing these debentures. Any shares of common stock issued on conversion of these debentures and subsequently sold will be freely tradable in the public markets without restriction. In addition, we will be required to repurchase these debentures following certain change in control events relating to us, and the holders of these debentures will have the option to require us to purchase all or a portion of their debentures on July 15, 2009, July 15, 2014 and July 15, 2019. The conversion of these debentures into common stock or the issuance of common stock to pay the purchase price of any such debentures could result in the issuance of a substantial number of shares of our common stock and substantial dilution to our stockholders.

Summary Unaudited Pro Forma Condensed Combined Financial Information

The following summary unaudited pro forma condensed combined financial information replaces the summary unaudited pro forma condensed combined financial information contained in our preliminary prospectus supplement and was derived from the unaudited pro forma condensed combined financial statements of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The pro forma other financial data and operating data was derived from historical operating statistics of each of Allscripts and A4. The unaudited pro forma condensed combined financial statements for the year ended December 31, 2004 are based on the audited financial statements of each of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial statements for the nine months ended September 30, 2005 are based on the unaudited financial statements of each of Allscripts and A4, incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial information gives effect to this offering, the application of the estimated net proceeds therefrom, the IDX stock repurchase and the A4 Acquisition as if each had occurred on January 1, 2004 in the case of statement of operations data or September 30, 2005 in the case of balance sheet data and other financial and operating data. The summary unaudited pro forma condensed combined financial information gives effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately $125.4 million of net proceeds, based on an assumed public offering price of $18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under Use of Proceeds below. The summary unaudited pro forma condensed combined financial information gives effect to the repurchase of 1,250,000 shares of our common stock from IDX for an aggregate purchase price of $21.6 million, based on an assumed price per share of $17.30 which is 95% of the assumed public offering price per share in this offering (the assumed net price per share we will receive in this offering) of $18.21 (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006). This offering is not conditioned upon the consummation of the A4 Acquisition or the IDX stock repurchase. We cannot assure you that the A4 Acquisition or the IDX stock repurchase will be consummated on the terms described in the preliminary prospectus supplement or at all.

The summary pro forma condensed combined financial information is provided for informational purposes only and is subject to a number of uncertainties and assumptions. This information does not purport to represent what the combined companies actual performance or financial position would have been had the transactions occurred on the dates indicated and does not purport to indicate the financial position or results of operations as of any future date or at any future period. Because the information below is a summary, you should read the following information in conjunction with the other information contained under the captions Unaudited Pro Forma Condensed Combined Financial Statements, Capitalization and Use of Proceeds below, under the caption The A4 Acquisition in the preliminary prospectus supplement and our and A4 s historical financial statements and the accompanying notes thereto, and other financial and statistical data included elsewhere in or incorporated by reference in the preliminary prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations from our Annual Report on Form 10-K as of and for the year ended December 31, 2004 and from our Quarterly Report on Form 10-Q as of and for the three and nine months ended September 30, 2005, each incorporated by reference in the preliminary prospectus supplement.

	Nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(in millions, except per share and percentage data) (unaudited)			
Statement of Operations Data:				
Revenues:				
Software and related services	$46.9	$55.9	$	$102.8
Prepackaged medications	32.8			32.8
Information services	6.6			6.6
Total revenues	86.3	55.9		142.2
Cost of revenue	47.1	23.4		70.5
Gross profit	39.2	32.5		71.7
Operating expenses:				
Selling, general and administrative expenses	31.8	20.6		52.4
Amortization of intangible assets	1.3	0.6	10.1	12.0
Income from operations	6.1	11.3	(10.1)	7.3
Income before income taxes	6.3	11.7	(12.8)	5.2
Income taxes		3.6	(1.6)	2.0
Net income	$6.3	$8.1	($11.2)	$3.2
Net income per share basic	$0.16			$0.06
Net income per share diluted	$0.15			$0.06
Weighted-average shares of common stock outstanding used in computing net income per share basic	39.9		9.5	49.4
Weighted-average shares of common stock outstanding used in computing net income per share diluted	43.0		9.5	52.5
Other Financial and Operating Data:				
EBITDA[(1)]	$10.9	$12.5	$	$23.4
Backlog	78.9	36.1		115.0
Bookings for software and information services segments	55.8	35.9		91.7
Percentage of revenues by segment:				
Software and related services	54.3%	100%		72.3%
Prepackaged medications	38.0%			23.1%
Information services	7.7%			4.6%
Balance Sheet Data (at end of period):				
Cash, cash equivalents and marketable securities	$136.0	$24.1	($121.6)	$38.5
Working capital	97.7	14.4	(52.9)	59.2
Intangible assets, net	9.6	5.0	80.5	95.1
Goodwill	13.8	27.9	128.5	170.2
Total assets	207.9	81.3	109.5	398.7
Long-term debt	82.5	3.3		85.8
Total stockholders equity	93.9	12.2	155.3	261.4

4

(1) We define EBITDA as net income (loss), plus interest expense, income taxes, and depreciation and amortization, less interest income. EBITDA reconciled to net income (loss) is as follows:

	Nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(dollars in millions) (unaudited)			
Net income	$6.3	$8.1	($11.2)	$3.2
Add back:				
Interest expense	2.6			2.6
Depreciation and amortization	4.9	1.2	10.1	16.2
Income taxes		3.6	(1.6)	2.0
Less:				
Interest income	(2.9)	(0.4)	2.7	(0.6)
EBITDA	$10.9	$12.5	$	$23.4

Management uses EBITDA as a measure to assess operating performance and our ability to fund capital expenditures and service debt. We believe that EBITDA provides information that is useful to investors for evaluating our business and understanding our operating performance in a manner similar to management. EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of acquisitions, other amortizations and depreciation, and capital spending. However, EBITDA is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation or as a substitute for operating income, net income, cash flows from operations, or other statements of operations or cash flow data prepared in conformity with GAAP, or as measures of profitability or liquidity. In addition, EBITDA is susceptible to varying interpretations and calculations, and the amounts presented in this free writing prospectus may not be comparable to similarly titled measures of other companies. EBITDA may not be indicative of historical operating results, and we do not intend for it to be predictive of future results of operations or cash flows. In addition, actual results may differ from those reflected in EBITDA.

	Year ended December 31, 2004			
	Historical Allscripts	Historical A4	Pro forma adjustments	Pro forma combined
	(in millions, except per share and percentage data) (unaudited)			
Statement of Operations Data:				
Revenues:				
Software and related services	$44.1	$67.2	($7.9)	$103.4
Prepackaged medications	44.7			44.7
Information services	11.9			11.9
Total revenues	100.7	67.2	(7.9)	160.0
Cost of revenue	58.1	26.4		84.5
Gross profit	42.6	40.8	(7.9)	75.5
Operating expenses:				
Selling, general and administrative expenses	37.7	24.0		61.7
Amortization of intangibles	1.8	0.5	13.4	15.7
Income (loss) from operations	3.1	16.3	(21.3)	(1.9)
Income (loss) before income taxes	3.1	16.4	(24.4)	(4.9)
Income taxes		(3.9)	3.9	
Net income (loss)	$3.1	$20.3	($28.3)	($4.9)
Net income (loss) per share basic	$0.08			($0.10)
Net income (loss) per share diluted	$0.07			($0.10)
Weighted-average shares of common stock outstanding used in computing net income (loss) per share basic	39.0		9.5	48.5
Weighted-average shares of common stock outstanding used in computing net income (loss) per share diluted	41.6		9.5	48.5
Other Financial and Operating Data:				
EBITDA[(1)]	$8.1	$17.3	($7.9)	$17.5
Backlog	67.1	25.9		93.0
Bookings for software and information services segments	65.9	45.4		111.3
Percentage of revenues by segment:				
Software and related services	43.8%	100%		64.6%
Prepackaged medications	44.4%			27.9%
Information services	11.8%			7.5%

(1) We define EBITDA as net income (loss), plus interest expense, income taxes, and depreciation and amortization, less interest income. EBITDA reconciled to net income (loss) is as follows:

	Year ended December 31, 2004			
	Historical Allscripts	**Historical A4**	**Pro forma adjustments**	**Pro forma combined**
	(dollars in millions) (unaudited)			
Net income (loss)	$3.1	$20.3	($28.3)	($4.9)
Add back:				
Interest expense	1.7	0.1	1.7	3.5
Depreciation and amortization	5.0	1.0	13.4	19.4
Income taxes		(3.9)	3.9	
Less:				
Interest income	(1.7)	(0.2)	1.4	(0.5)
EBITDA	$8.1	$17.3	($7.9)	$17.5

Management uses EBITDA as a measure to assess operating performance and our ability to fund capital expenditures and service debt. We believe that EBITDA provides information that is useful to investors for evaluating our business and understanding our operating performance in a manner similar to management. EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of acquisitions, other amortizations and depreciation, and capital spending. However, EBITDA is not a measure of financial performance computed in accordance with GAAP and should not be considered in isolation or as a substitute for operating income, net income, cash flows from operations, or other statements of operations or cash flow data prepared in conformity with GAAP, or as measures of profitability or liquidity. In addition, EBITDA is susceptible to varying interpretations and calculations, and the amounts presented in this free writing prospectus may not be comparable to similarly titled measures of other companies. EBITDA may not be indicative of historical operating results, and we do not intend for it to be predictive of future results of operations or cash flows. In addition, actual results may differ from those reflected in EBITDA.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2005:

on an actual basis, and

on a pro forma basis to give effect to the following transactions as if they had occurred on that date:

The A4 Acquisition for approximately $278.7 million, of which approximately $215.0 million is payable in cash and approximately $63.7 million is payable through the issuance of 3,500,000 shares of our common stock (based on the last reported sale price of $18.21 per share of our common stock on the Nasdaq National Market on February 17, 2006);

The sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately $125.4 million of net proceeds, based on the assumed public offering price of $18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us and the assumed application of all of the proceeds of this offering to pay a portion of the cash purchase price for the A4 Acquisition; and

The repurchase of 1,250,000 shares of our common stock owned by IDX for a total purchase price of approximately $21.6 million (based on 95% of the assumed public offering price of $18.21 per share, which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006, which is the net price per share we will receive in this offering).

	As of September 30, 2005	
	Actual	Pro forma[1]
	(dollars in millions, except share data)	
Cash, cash equivalents and marketable securities	$136.0	$38.5
Long-term debt	$82.5	$85.8
Total debt	82.5	86.0
Preferred stock:		
$0.01 par value per share; 1.0 million shares authorized; no shares issued and outstanding		
Common stock:		
$0.01 par value per share; 150.0 million shares authorized; 42.2 million shares issued and 40.8 million shares outstanding, actual and 51.7 million shares, pro forma	0.4	0.4
Less treasury stock:		
$0.01 par value; 1.4 million shares issued, actual and no shares, pro forma[2]	(11.2)	
Additional paid-in capital	655.0	811.3
Accumulated deficit	(549.1)	(549.1)

Deferred stock based compensation	(0.4)	(0.4)
Accumulated other comprehensive income	(0.8)	(0.8)
Total stockholders equity	93.9	261.4
Total capitalization	$176.4	$347.4

(1) You should read the following table in conjunction with the financial statements incorporated by reference in the preliminary prospectus supplement and the related notes thereto, the pro forma financial data included in this free writing prospectus and the related notes thereto, the information included under the caption Use

of Proceeds below and under the caption The A4 Acquisition in the preliminary prospectus supplement. The following pro forma data is based upon a number of assumptions and estimates, including those set forth in Unaudited Pro Forma Condensed Combined Financial Statements in this free writing prospectus, is subject to uncertainties and does not purport to be indicative of the actual capitalization that would have resulted had the transactions described above in fact occurred on the date indicated, nor does it purport to be indicative of our future capitalization. We cannot assure you that the A4 Acquisition will be consummated on the terms described in the preliminary prospectus supplement or at all.

(2) Of the 7,300,000 shares being issued in this offering, 1,400,000 shares will be issued from treasury.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statement for the year ended December 31, 2004 replaces the unaudited pro forma condensed combined financial statement for the year ended December 31, 2004 contained in the preliminary prospectus supplement and is based on the audited financial statements of each of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial statements as of and for the nine months ended September 30, 2005 replace the unaudited pro forma condensed combined financial statements as of and for the nine months ended September 30, 2005 contained in the preliminary prospectus supplement and are based on the unaudited financial statements of each of Allscripts and A4 incorporated by reference in the preliminary prospectus supplement. The unaudited pro forma condensed combined financial statements give effect to this offering, the application of net proceeds therefrom, the IDX stock repurchase, the A4 Acquisition, and the assumptions and adjustments described in the accompanying notes, as if each had occurred on January 1, 2004 in the case of the unaudited pro forma condensed combined statement of operations and September 30, 2005 in the case of balance sheet data. The unaudited pro forma condensed combined financial statements give effect to the sale of 7,300,000 shares of our common stock in this offering and our receipt of approximately $125.4 million of net proceeds, based on an assumed public offering price of $18.21 per share (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006) and after deducting underwriting discounts and commissions and estimated expenses of this offering payable by us, as described under Use of Proceeds below. The unaudited pro forma condensed combined financial statements give effect to the repurchase of 1,250,000 shares of our common stock from IDX for an aggregate purchase price of $21.6 million, based on an assumed price per share of $17.30 which is 95% of the assumed public offering price per share in this offering (the assumed net price per share we will receive in this offering) of $18.21 (which was the last reported sale price of our common stock on the Nasdaq National Market on February 17, 2006). This offering is not conditioned upon the consummation of the A4 Acquisition or the IDX stock repurchase. We cannot assure you that the A4 Acquisition or the IDX stock repurchase will be consummated on the terms described in the preliminary prospectus supplement or at all.

The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that we believe are reasonable and are described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements do not take into account (i) any synergies or cost savings that may or are expected to occur as a result of the A4 Acquisition or (ii) any cash or non-cash charges that we may incur in connection with the A4 Acquisition, the level and timing of which cannot yet be determined. The unaudited pro forma condensed combined financial statements have been prepared in accordance with SEC rules and regulations.

The unaudited pro forma condensed combined financial statements assume that the A4 Acquisition would be accounted for using the purchase method of accounting in accordance with the Financial Accounting Standards Board, or FASB, Statement No. 141, Business Combinations, or SFAS No. 141, and the resultant goodwill and other intangible assets will be accounted for under FASB Statement No. 142, Goodwill and Other Intangible Assets, or SFAS No. 142. The total purchase price has been preliminarily allocated based on information available to us as of the date of this of prospectus supplement, to the tangible and intangible assets acquired and liabilities assumed based on management s preliminary estimates of their current fair values. These estimates and assumptions of fair values of assets acquired and liabilities assumed and related operating results are subject to change that could result in material differences between the actual amounts and those reported in the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial statements are provided for informational purposes only and are subject to a number of uncertainties and assumptions and do not purport to represent what the combined companies actual performance or financial position would have been had the transactions occurred on the dates indicated and does not purport to indicate financial position or results of operations as of any future date or for any future period. You should read the following information in conjunction with the other information contained under the captions Capitalization above and Use of Proceeds below, under the caption The A4 Acquisition in the preliminary prospectus supplement and our and A4 s historical financial statements and the accompanying notes thereto, and other financial and statistical data included elsewhere in or incorporated by reference in the preliminary prospectus supplement and Management s Discussion and Analysis of Financial Condition and Results of Operations from our Annual Report on Form 10-K as of and for the year ended December 31, 2004 and from our Quarterly Report on Form 10-Q as of and for the three and nine months ended September 30, 2005, each incorporated by reference in the preliminary prospectus supplement.

Unaudited Pro Forma Condensed Combined Statement of Operations

Nine months ended September 30, 2005

	For the nine months ended September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments (Note 4)	Pro forma combined
	(in millions, except per share data)			
Revenues:				
Software and related services	$46.9	$55.9	$	$102.8
Prepackaged medications	32.8			32.8
Information services	6.6			6.6
Total revenues	86.3	55.9		142.2
Cost of revenue:				
Software and related services	16.6	23.4		40.0
Prepackaged medications	27.2			27.2
Information services	3.3			3.3
Total cost of revenue	47.1	23.4		70.5
Gross profit	39.2	32.5		71.7
Operating expenses:				
Selling, general and administrative expenses	31.8	20.6		52.4
Amortization of intangible assets	1.3	0.6	10.1(C)	12.0
Income from operations	6.1	11.3	(10.1)	7.3
Interest income	2.9	0.4	(2.7)[H]	0.6
Interest expense	(2.6)			(2.6)
Other income (expense), net	(0.1)			(0.1)
Income before income taxes	6.3	11.7	(12.8)	5.2
Income taxes		3.6	(1.6)[J]	2.0
Net income	$6.3	$8.1	($11.2)	$3.2
Net income per share:				
Basic	$0.16			$0.06
Diluted	$0.15			$0.06
Weighted average common shares outstanding (Note 2):				
Basic	39.9		9.5(K)	49.4
Diluted	43.0		9.5(K)	52.5

Unaudited Pro Forma Condensed Combined Statement of Operations

Year ended December 31, 2004

	For the year ended December 31, 2004			
	Historical Allscripts	**Historical A4**	**Pro forma adjustments (Note 4)**	**Pro forma combined**
	(in millions, except per share data)			
Revenues:				
Software and related services	$44.1	$67.2	($7.9)(E)	$103.4
Prepackaged medications	44.7			44.7
Information services	11.9			11.9
Total revenues	100.7	67.2	(7.9)	160.0
Cost of revenue:				
Software and related services	15.9	26.4		42.3
Prepackaged medications	35.7			35.7
Information services	6.5			6.5
Total cost of revenue	58.1	26.4		84.5
Gross profit	42.6	40.8	(7.9)	75.5
Operating expenses:				
Selling, general and administrative expenses	37.7	24.0		61.7
Amortization of intangible assets	1.8	0.5	13.4(C)	15.7
Income (loss) from operations	3.1	16.3	(21.3)	(1.9)
Interest income	1.7	0.2	(1.4)(H)	0.5
Interest expense	(1.7)	(0.1)	(1.7)(I)	(3.5)
Income (loss) before income taxes	3.1	16.4	(24.4)	(4.9)
Income taxes		(3.9)	3.9(J)	
Net income (loss)	$3.1	$20.3	($28.3)	($4.9)
Net income (loss) per share:				
Basic	$0.08			($0.10)
Diluted	$0.07			($0.10)
Weighted average common shares outstanding (Note 2):				
Basic	39.0		9.5(K)	48.5
Diluted	41.6		9.5(K)	48.5

Unaudited Pro Forma Condensed Combined Balance Sheet

As of September 30, 2005

	As of September 30, 2005			
	Historical Allscripts	Historical A4	Pro forma adjustments (Note 4)	Pro forma combined
	(in millions, except per share data)			
Current assets:				
Cash and cash equivalents	$37.7	$24.1	($23.3)(A)	$38.5

$ 100.00	$ 114.21	$113.44	$137.11	$168.40	$168.30
Dow Jones Specialty Retailers Index $ 100.00	$ 125.19	$ 128.98	$ 149.77	$ 192.75	$ 220.95

16

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 years ended February 2, 2019 ("fiscal 2018"), January 28, 2017 ("fiscal 2016"), January 30, 2016 ("fiscal 2015"), and January 31, 2015 ("fiscal 2014") consisted of 52 weeks. The fiscal year ended February 3, 2018 ("fiscal 2017") consisted of 53 weeks. The "Statement of Operations Data" for fiscal 2018, fiscal 2017 and fiscal 2016 and the "Balance Sheet Data" as of February 2, 2019 and February 3, 2018 are derived from our audited consolidated financial statements which are included elsewhere in this Annual Report. The "Statement of Operations Data" for fiscal 2015 and fiscal 2014, and the "Balance Sheet Data" as of January 28, 2017, January 30, 2016 and January 31, 2015 are derived from unaudited consolidated financial statements not included in this Annual Report. The unaudited consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this data.

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				
	2018	2017	2016	2015	2014
	(In millions, except statistical and per share data)				
Statement of Operations Data:[1]					
Net sales	$8,285.3	$8,547.1	$7,965.0	$9,018.9	$9,084.0
Cost of sales	5,977.2	6,062.2	5,465.1	6,359.1	6,448.0
Gross profit	2,308.1	2,484.9	2,499.9	2,659.8	2,636.0
Selling, general and administrative expenses	1,888.6	1,909.6	1,861.9	1,905.5	1,906.6
Depreciation and amortization	105.6	122.3	136.7	141.0	149.6
Goodwill impairments[2]	970.7	—	—	—	—
Asset impairments[3]	45.2	13.8	19.6	4.6	2.2
Operating (loss) earnings	(702.0)	439.2	481.7	608.7	577.6
Interest expense, net	51.1	55.3	53.0	23.0	10.0
(Loss) earnings from continuing operations before income tax expense	(753.1)	383.9	428.7	585.7	567.6
Income tax expense	41.7	153.5	124.2	206.5	198.5
Net (loss) income from continuing operations	(794.8)	230.4	304.5	379.2	369.1
Income (loss) from discontinued operations, net of tax	121.8	(195.7)	48.7	23.6	24.0
Net (loss) income	$(673.0)	$34.7	$353.2	$402.8	$393.1
Diluted Per Share Data:[4]					
(Loss) earnings per share from continuing operations	$(7.79)	$2.27	$2.93	$3.55	$3.26
Earnings (loss) per share from discontinued operations	1.19	(1.93)	0.47	0.22	0.21
Diluted (loss) earnings per share	$(6.59)	$0.34	$3.40	$3.78	$3.47
Dividends per common share	$1.52	$1.52	$1.48	$1.44	$1.32
Weighted-average common shares outstanding:					
Basic	102.1	101.4	103.4	106.0	112.2
Diluted	102.1	101.5	103.8	106.7	113.2
Store Operating Data:					
Comparable store sales (decrease) increase [5]	(0.3)%	5.8%	(11.0)%	4.3%	3.4%
Inventory turnover	4.5	5.0	4.7	5.3	5.2
Number of stores at fiscal year end	5,830	5,947	6,132	6,227	6,329
Balance Sheet Data at Fiscal Year End:					
Working capital [6]	$946.6	$478.4	$208.2	$40.5	$387.5
Total assets	$4,044.3	$5,041.6	$4,975.9	$4,330.3	$4,240.4

Total debt, net (7)	$820.8	$817.9	$815.0	$345.4	$344.7
Total liabilities	$2,708.1	$2,827.1	$2,721.8	$2,249.3	$2,172.7
Total stockholders' equity	$1,336.2	$2,214.5	$2,254.1	$2,081.0	$2,067.7

(1) We completed the previously announced sale of our Spring Mobile business in January 2019. The historical results of Spring Mobile, including the gain on sale, are reported as discontinued operations for all periods presented.

(2) In fiscal 2018, we recognized goodwill impairment charges totaling \$795.6 million, \$28.8 million, \$66.4 million and \$79.9 million for the United States, Canada, Australia and Europe segments, respectively. See Note 7, "Goodwill and Intangible Assets," to our consolidated financial statements for additional information.

(3) Asset impairment charges primarily relate to intangible assets and store-level property and equipment. We recognized intangible asset impairment charges totaling \$43.1 million, \$11.0 million and \$14.4 million in fiscal 2018, 2017 and 2016. See Note 7, "Goodwill and Intangible Assets," to our consolidated financial statements for additional information.

(4) The sum of (loss) earnings per share for continuing operations and discontinued operations may not necessarily total to consolidated (loss) earnings per share as amounts are calculated based on whole numbers.

(5) 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 compares the fiscal year ended to the most closely comparable weeks for the prior year period. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods. We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer who provides its consumers several ways to access its products.

(6) Net working capital excludes held-for-sale assets and liabilities related to our Spring Mobile business, which was sold in January 2019.

(7) 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. On March 4, 2019, we issued a notice of redemption to redeem all of our 2019 Senior Notes on April 4, 2019. See Note 10, "Debt," to our consolidated financial statements for additional information.

18

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, multichannel video game and consumer electronics retailer. We operate over 5,800 stores across 14 countries. Our consumer product network also includes www.gamestop.com; Game Informer® magazine, the world's leading print and digital video game publication; and ThinkGeek, www.thinkgeek.com, the premier retailer for the global geek community featuring exclusive and unique video game and pop culture products, and Simply Mac, which sells the full line of Apple products, including laptops, tablets, and smartphones and offers Apple certified warranty and repair services.

We operate our business in four geographic segments: United States, Canada, Australia and Europe. Our former Technology Brands segment had been comprised of Spring Mobile, Simply Mac and Cricket Wireless branded stores ("Cricket Wireless"). Cricket Wireless was sold in January 2018, and Spring Mobile was sold in January 2019. Simply Mac and the historical results of Cricket Wireless are reported in the United States segment in this Annual Report. The historical results of Spring Mobile, including the gain on sale, are reported as discontinued operations for all periods presented in this Annual Report. The discussion and analysis of our results of operations refers to continuing operations unless otherwise noted.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal year 2018 consisted of the 52 weeks ended on February 2, 2019 ("fiscal 2018"). Fiscal year 2017 consisted of the 53 weeks ended on February 3, 2018 ("fiscal 2017") and fiscal year 2016 consisted of the 52 weeks ended on January 28, 2017 ("fiscal 2016").

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 conveniently access digital content to facilitate the digital sales and delivery process. We 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 compares the fiscal year ended to the most closely comparable weeks for the prior year period. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers’ methods.

We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer that provides its consumers several ways to access its products.

STORE COUNT INFORMATION

The following table presents the number of stores and the number of stores opened, acquired and closed during fiscal 2018:

	February 3, 2018	Opened/Acquired	Disposed	February 2, 2019
Video Game Stores	5,796	24	(136)	5,684
Collectibles Stores	103	4	(4)	103
Simply Mac	48	—	(5)	43
Total Stores	5,947	28	(145)	5,830

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 2018		Fiscal Year 2017		Fiscal Year 2016	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Net sales	$8,285.3	100.0 %	$8,547.1	100.0 %	$7,965.0	100.0%
Cost of sales	5,977.2	72.1	6,062.2	70.9	5,465.1	68.6
Gross profit	2,308.1	27.9	2,484.9	29.1	2,499.9	31.4
Selling, general and administrative expenses	1,888.6	22.9	1,909.6	22.4	1,861.9	23.4
Depreciation and amortization	105.6	1.3	122.3	1.4	136.7	1.7
Goodwill impairments	970.7	11.7	—	—	—	—
Asset impairments	45.2	0.5	13.8	0.2	19.6	0.2
Operating (loss) earnings	(702.0)	(8.5)	439.2	5.1	481.7	6.1
Interest expense, net	51.1	0.6	55.3	0.6	53.0	0.7
(Loss) earnings from continuing operations before income taxes	(753.1)	(9.1)	383.9	4.5	428.7	5.4
Income tax expense	41.7	0.5	153.5	1.8	124.2	1.6
Net (loss) income from continuing operations	(794.8)	(9.6)	230.4	2.7	304.5	3.8
Income (loss) from discontinued operations, net of tax	121.8	1.5	(195.7)	(2.3)	48.7	0.6
Net (loss) income	$(673.0)	(8.1)%	$34.7	0.4 %	$353.2	4.4 %

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

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

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales	Net Sales	Percent of Net Sales
New video game hardware(1)	$1,767.8	21.3 %	$1,791.8	21.0 %	$1,396.7	17.5 %
New video game software	2,449.7	29.6	2,582.0	30.2	2,493.4	31.3
Pre-owned and value video game products	1,866.3	22.5	2,149.6	25.2	2,254.1	28.3
Video game accessories	956.5	11.5	784.3	9.2	676.7	8.5
Digital	194.0	2.3	189.2	2.2	181.0	2.3
Collectibles	707.5	8.5	636.2	7.4	494.1	6.2
Other(2)	343.5	4.3	414.0	4.8	469.0	5.9
Total	$8,285.3	100.0%	$8,547.1	100.0%	$7,965.0	100.0%

	Fiscal Year 2018		Fiscal Year 2017		Fiscal Year 2016	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
New video game hardware(1)	$150.0	8.5 %	$163.1	9.1 %	$154.2	11.0 %
New video game software	525.6	21.5	590.3	22.9	600.4	24.1
Pre-owned and value video game products	810.4	43.4	977.1	45.5	1,044.1	46.3
Video game accessories	312.5	32.7	255.0	32.5	235.2	34.8
Digital	171.6	88.5	162.4	85.8	155.5	85.9
Collectibles	233.3	33.0	208.2	32.7	171.6	34.7
Other(2)	104.7	30.5	128.8	31.1	138.9	29.6
Total	$2,308.1	27.9 %	$2,484.9	29.1 %	$2,499.9	31.4 %

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

(2) Includes the operations of our Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

21

Fiscal 2018 Compared to Fiscal 2017

	Fiscal Year		Change	
	2018	2017	$	%
	($ in millions)			
Net sales	$8,285.3	$8,547.1	$(261.8)	(3.1)%
Cost of sales	5,977.2	6,062.2	(85.0)	(1.4)
Gross profit	2,308.1	2,484.9	(176.8)	(7.1)
Selling, general and administrative expenses	1,888.6	1,909.6	(21.0)	(1.1)
Depreciation and amortization	105.6	122.3	(16.7)	(13.7)
Goodwill impairments	970.7	—	970.7	—
Asset impairments	45.2	13.8	31.4	227.5
Operating (loss) earnings	(702.0)	439.2	(1,141.2)	(259.8)
Interest expense, net	51.1	55.3	(4.2)	(7.6)
(Loss) earnings from continuing operations before income taxes	(753.1)	383.9	(1,137.0)	(296.2)
Income tax expense	41.7	153.5	(111.8)	(72.8)
Net (loss) income from continuing operations	(794.8)	230.4	(1,025.2)	(445.0)%
Income (loss) from discontinued operations, net of tax	121.8	(195.7)	317.5	(162.2)%
Net (loss) income	$(673.0)	$34.7	$(707.7)	(2,039.5)%

	Net Sales		Change	
	Fiscal Year 2018	Fiscal Year 2017	$	%
	($ in millions)			
New video game hardware[(1)]	$1,767.8	$1,791.8	$(24.0)	(1.3)%
New video game software	2,449.7	2,582.0	(132.3)	(5.1)
Pre-owned and value video game products	1,866.3	2,149.6	(283.3)	(13.2)
Video game accessories	956.5	784.3	172.2	22.0
Digital	194.0	189.2	4.8	2.5
Collectibles	707.5	636.2	71.3	11.2
Other[(2)]	343.5	414.0	(70.5)	(17.0)
Total	$8,285.3	$8,547.1	$(261.8)	(3.1)%

	Gross Profit		Change	
	Fiscal Year 2018	Fiscal Year 2017	$	%
	($ in millions)			
New video game hardware[(1)]	$150.0	$163.1	$(13.1)	(8.0)%
New video game software	525.6	590.3	(64.7)	(11.0)
Pre-owned and value video game products	810.4	977.1	(166.7)	(17.1)
Video game accessories	312.5	255.0	57.5	22.5
Digital	171.6	162.4	9.2	5.7
Collectibles	233.3	208.2	25.1	12.1
Other[(2)]	104.7	128.8	(24.1)	(18.7)
Total	$2,308.1	$2,484.9	$(176.8)	(7.1)%

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

(2) Includes the operations of our Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from

PowerUp Pro loyalty members receiving Game Informer magazine in print form.

Net Sales

Net sales decreased $261.8 million, or 3.1%, in fiscal 2018 compared to fiscal 2017. The decrease in net sales was primarily attributable to fiscal 2017 including 53 weeks compared to 52 weeks in fiscal 2018, the impact of 117 store closures (net of openings), the negative impact of foreign exchange rate fluctuations and a decrease in comparable stores sales of 0.3%. Sales for the 53rd week included in fiscal 2017 were approximately $132.7 million. The decrease in comparable store sales was primarily the result of a decrease in sales of pre-owned and value video game products and new video game software, partially offset by an increase in sales of video game accessories and collectibles.

The decrease in net sales was primarily driven by the following:

- Pre-owned and value video game product sales decreased $283.3 million, or 13.2%, for fiscal 2018 as compared to fiscal 2017. Pre-owned and value video game product sales for the 53rd week included in fiscal 2017 were approximately $37.7 million. The decrease in fiscal 2018 compared to fiscal 2017 was primarily due to a decline in pre-owned software, partially offset by an increase in sales of pre-owned hardware. The decline in pre-owned software sales is primarily due to fewer new title releases and a decline in new video game software sales in the first six months of fiscal 2018, which affects pre-owned inventory levels, weakening demand as a result of increasing digital adoption, including digital access to older titles, and lower promotional activity in fiscal 2018.
- New video game software sales decreased $132.3 million, or 5.1%, for fiscal 2018 as compared to fiscal 2017. New video game software sales for the 53rd week included in fiscal 2017 were approximately $36.4 million. The decline was primarily due to weaker new title releases in the first six months of fiscal 2018, which was partially offset by an increase in sales of Nintendo Switch titles due to the expansion of the hardware install base and the increase of new release titles.

The decreases described above were partially offset by the following:

- Video game accessories increased $172.2 million, or 22.0%, for fiscal 2018 as compared to fiscal 2017, due to growth in sales of audio-related and other accessories primarily associated with the battle royale gaming genre.
- Collectibles sales increased $71.3 million, or 11.2%, for fiscal 2018 as compared to fiscal 2017, primarily driven by new and improved product offerings.

Cost of Sales

Cost of sales decreased $85.0 million, or 1.4%, in fiscal 2018 compared to fiscal 2017, primarily as a result of the change in net sales discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit decreased $176.8 million, or 7.1%, in fiscal 2018 compared to fiscal 2017, and gross profit as a percentage of net sales decreased to 27.9% in fiscal 2018 compared to 29.1% in fiscal 2017. Gross profit for the 53rd week included in fiscal 2017 was approximately $34.7 million. The decrease in gross profit was primarily driven by decreases of $166.7 million in pre-owned and value video game products and $64.7 million in new video game software, which were partially offset by increases of $57.5 million in video game accessories and $25.1 million in collectibles.

The net decrease in gross profit as a percentage of net sales was primarily due to product mix shift between categories and the following product margin rate variances:

- Pre-owned and value video game products decreased to 43.4% in fiscal 2018 from 45.5% in fiscal 2017 due to a greater mix of sales of pre-owned hardware, which carry lower gross margin than pre-owned software.
- New video game software decreased to 21.5% in fiscal 2018 from 22.9% in fiscal 2017, primarily due to higher promotional activity in the fiscal 2018 holiday season.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses decreased $21.0 million, or 1.1%, in fiscal 2018 compared to fiscal 2017, primarily due to the impact of the 53rd week in fiscal 2017 and the positive impact of foreign exchange rate fluctuations.

Depreciation and Amortization

Depreciation and amortization expense decreased $16.7 million, or 13.7%, in fiscal 2018 compared to fiscal 2017, primarily due to declining capital expenditures over the past several years.

Goodwill and Asset Impairments

During fiscal 2018, we recognized goodwill impairment charges totaling $970.7 million and asset impairment charges totaling $45.2 million. The impairment charges were primarily the result of a sustained decline in our market capitalization and lower forecasted cash flows. During fiscal 2017, we recognized asset impairment charges of $13.8 million, which was primarily comprised of an $11.0 million impairment of our Simply Mac dealer agreement intangible asset. No goodwill impairment charges were recognized during fiscal 2017. See Note 7, “Goodwill and Intangible Assets,” to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

Income Tax

Income tax expense was $41.7 million, representing an effective tax rate of (5.5)% in fiscal 2018, compared to $153.5 million, representing an effective tax rate of 40.0% in fiscal 2017. The decrease in the effective income tax rate compared to the prior year was primarily driven by non-deductible impairment charges, the settlement of the tax dispute in France, tax reform, revisions to transition taxes and the relative mix of earnings across the jurisdictions within which we operate. See Note 8, "Income Taxes," and Note 12, "Commitments and Contingencies," to our consolidated financial statements included elsewhere in this Annual Report for additional information.

Operating (Loss) Earnings and Net (Loss) Income from Continuing Operations

The factors described above led to an operating loss of $702.0 million for fiscal 2018, compared to operating earnings of $439.2 million for fiscal 2017. Net loss from continuing operations was $794.8 million for fiscal 2018 compared to net income from continuing operations of $230.4 million for fiscal 2017.

Income (Loss) from Discontinued Operations, Net of Tax

On January 16, 2019, we completed the previously announced sale of all of the equity interest in our wholly-owned subsidiary Spring Communications Holding, Inc. ("Spring Mobile") to Prime Acquisition Company, LLC, a wholly-owned subsidiary of Prime Communications, L.P., pursuant to an Equity Purchase Agreement dated as of November 21, 2018. The net cash proceeds received from the sale totaled $727.9 million, which is subject to customary post-closing adjustments. We recognized a gain on sale of $100.8 million ($65.4 million, net of tax) during fiscal 2018. The historical results of Spring Mobile, including the gain on sale, is reported as discontinued operations. Except for customary post-closing adjustments and transition services, we have no contingencies or continuing involvement with Spring Mobile subsequent to the completion of the sale.

Income from discontinued operations, net of tax, totaled $121.8 million in fiscal 2018 compared to a net loss of $195.7 million in fiscal 2017. Income from discontinued operations, net of tax, in fiscal 2018 includes the gain on sale, net of tax, of $65.4 million. Loss from discontinued operations, net of tax, in fiscal 2017 includes goodwill and asset impairment charges totaling $377.0 million. Refer to Note 2, "Discontinued Operations and Dispositions," to our consolidated financial statements for additional information.

Fiscal 2017 Compared to Fiscal 2016

	Fiscal Year		Change	
	2017	2016	$	%
	($ in millions)			
Net sales	$8,547.1	$7,965.0	$582.1	7.3 %
Cost of sales	6,062.2	5,465.1	597.1	10.9
Gross profit	2,484.9	2,499.9	(15.0)	(0.6)
Selling, general and administrative expenses	1,909.6	1,861.9	47.7	2.6
Depreciation and amortization	122.3	136.7	(14.4)	(10.5)
Asset impairments	13.8	19.6	(5.8)	(29.6)
Operating earnings	439.2	481.7	(42.5)	(8.8)
Interest expense, net	55.3	53.0	2.3	4.3
Earnings from continuing operations before income taxes	383.9	428.7	(44.8)	(10.5)
Income tax expense	153.5	124.2	29.3	23.6
Net income from continuing operations	230.4	304.5	(74.1)	(24.3)
(Loss) income from discontinued operations, net of tax	(195.7)	48.7	(244.4)	(501.8)
Net income	$34.7	$353.2	$(318.5)	(90.2)%

	Net Sales		Change	
	Fiscal Year 2017	Fiscal Year 2016	$	%
	($ in millions)			
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
Collectibles	636.2	494.1	142.1	28.8
Other[2]	414.0	469.0	(55.0)	(11.7)
Total	$8,547.1	$7,965.0	$582.1	7.3 %

	Gross Profit		Change	
	Fiscal Year 2017	Fiscal Year 2016	$	%
	($ in millions)			
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
Collectibles	208.2	171.6	36.6	21.3
Other[2]	128.8	138.9	(10.1)	(7.3)
Total	$2,484.9	$2,499.9	$(15.0)	(0.6)%

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

(2) Includes the operations of our Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our video game brands, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

Net Sales

Net sales increased $582.1 million, or 7.3%, in fiscal 2017 compared to fiscal 2016. Sales for the 53rd week included in fiscal 2017 were approximately $132.7 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 a 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, or 28.8%, for fiscal 2017 as compared to fiscal 2016, due to the growth of collectibles sales in our Video Game Brands stores and the growth in the number of stand-alone collectibles stores.
- Video game accessories increased $107.6 million, or 15.9%, for fiscal 2017 as compared to fiscal 2016, primarily due to the recent release of the Nintendo Switch.
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New video game software sales increased $88.6 million, or 3.6%, for fiscal 2017 as compared to fiscal 2016, primarily due to the recent release of the Nintendo Switch.

The increases described above were partially offset by a decrease in pre-owned and value video game product sales of $104.5 million, or 4.6%, for fiscal 2017 as compared to fiscal 2016, primarily due to the decrease in store traffic as a result of weaker new release titles mainly in the first half of the current fiscal year.

Cost of Sales

Cost of sales increased $597.1 million, or 10.9%, in fiscal 2017 compared to fiscal 2016, primarily as a result of the change in net sales discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit decreased $15.0 million, or 0.6%, in fiscal 2017 compared to fiscal 2016, and gross profit as a percentage of net sales decreased to 29.1% in fiscal 2017 compared to 31.4% in fiscal 2016. The decrease in gross profit was driven by decreases of $67.0 million in pre-owned and value video game products and $10.1 million in new video game software, partially offset by increases of $36.6 million in collectibles and $19.8 million in video game accessories.

The net decrease in gross profit as a percentage of net sales was due to product mix shift between categories and the following product margin rate variances:

- New video game hardware decreased to 9.1% in fiscal 2017 from 11.0% in fiscal 2016, primarily due to product mix shift in console sales.
- New video game software decreased to 22.9% in fiscal 2017 from 24.1% in fiscal 2016, primarily due to lower cooperative advertising funds as a percentage of sales combined with higher promotional activity in the fiscal 2017 holiday season.
- Pre-owned and value video game products decreased to 45.5% in fiscal 2017 from 46.3% in fiscal 2016 due to a greater mix of sales of current generation products, which carry lower gross margin than previous generation products.
- Video game accessories decreased to 32.5% in fiscal 2017 from 34.8% in fiscal 2016, due to a shift in product mix including PlayStation VR which carry lower margin.
- Collectibles decreased to 32.7% in fiscal 2017 from 34.7% in fiscal 2016, primarily due to increased promotional activity in the fiscal 2017 holiday season.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") increased $47.7 million, or 2.6%, in fiscal 2017 compared to fiscal 2016. The increase was primarily due to the impact of the 53rd week in fiscal 2017 and the negative impact of foreign exchange rate fluctuations.

Depreciation and Amortization

Depreciation and amortization expense decreased $14.4 million, or 10.5%, in fiscal 2017 compared to fiscal 2016, primarily due to certain corporate assets being fully depreciated and certain intangible assets being fully amortized.

Asset Impairments

During fiscal 2017, we recorded asset impairment charges of $13.8 million, primarily associated with the impairment of Simply Mac's dealer agreement intangible asset. In fiscal 2016, we recognized asset impairment charges primarily consisting of a $7.4 million impairment of our Micromania trade name intangible asset, and a $7.0 million impairment to our Simply Mac dealer agreement intangible asset and $5.2 million impairment to store-level property and equipment . The Micromania trade name is associated with our operations in France.

Income Tax

Income tax expense was $153.5 million, representing an effective tax rate of 40.0% in fiscal 2017, compared to $124.2 million, representing an effective tax rate of 29.0% in fiscal 2016. The increase in the effective income tax rate compared to the prior year was primarily driven by tax reform, the impairment of goodwill, changes in uncertain tax positions and the relative mix of earnings across the jurisdictions in which we operate. Refer to Note 8, "Income Taxes," to our consolidated financial statements for additional information.

Operating Earnings and Net Income from Continuing Operations

The factors described above led to operating earnings of $439.2 million for fiscal 2017, or an 8.8% decrease from operating earnings of $481.7 million for fiscal 2016. Additionally, net income from continuing operations was $230.4 million for fiscal 2017, which represented a 24.3% decrease from net income from continuing operations of $304.5 million for fiscal 2016. The impact of the 53rd week in fiscal 2017 was an increase to operating earnings of approximately $12.0 million.

SEGMENT PERFORMANCE

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

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

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

As of and for the Fiscal Year Ended February 2, 2019	United States	Canada	Australia	Europe	Consolidated
Net sales	$5,800.2	$434.5	$645.4	$1,405.2	$8,285.3
Goodwill impairments	$795.6	$28.8	$66.4	$79.9	$970.7
Operating loss	$(533.9)	$(19.3)	$(46.5)	$(102.3)	$(702.0)
Segment Operating data:					
Store count	3,846	311	462	1,211	5,830
Comparable store sales	1.8 %	3.1 %	(3.4)%	(7.7)%	(0.3)%

As of and for the Fiscal Year Ended February 3, 2018	United States	Canada	Australia	Europe	Consolidated
Net sales	$5,876.0	$434.9	$702.2	$1,534.0	$8,547.1
Operating earnings	$332.8	$18.5	$34.9	$53.0	$439.2
Segment Operating data:					
Store count	3,912	321	467	1,247	5,947
Comparable store sales	4.3 %	10.0 %	8.2 %	9.5 %	5.8 %

As of and for the Fiscal Year Ended January 28, 2017	United States	Canada	Australia	Europe	Consolidated
Net sales	$5,660.0	$382.0	$609.5	$1,313.5	$7,965.0
Operating earnings	$398.4	$22.4	$34.9	$26.0	$481.7
Segment Operating data:					
Store count	4,063	322	464	1,283	6,132
Comparable store sales	(13.5)%	(12.6)%	(2.0)%	(2.7)%	(11.0)%

Fiscal 2018 Compared to Fiscal 2017

Video Game Brands

United States

Segment results for the United States include retail operations in 50 states and Guam; our e-commerce websites www.gamestop.com and www.thinkgeek.com; Game Informer magazine; Simply Mac; Kongregate, a web and mobile gaming platform which we sold in July 2017; and Cricket Wireless, which we sold in January 2018. Net sales for fiscal 2018 decreased $75.8 million, or 1.3%, compared to fiscal 2017, primarily due to the impact of the 53rd week in fiscal 2017 of approximately $91.1 million, the impact of 66 store closures (net of openings) and the divestiture of our Cricket Wireless stores in January 2018; which were partially offset by a 1.8% increase in comparable store sales. The increase in comparable store sales was primarily driven by increases in sales of video game accessories, new video game hardware and collectibles. These increases were partially offset by decreases in sales of pre-owned and value video game products and new video game software.

The operating loss for fiscal 2018 was $533.9 million compared to operating earnings of $332.8 million for fiscal 2017. The operating loss in fiscal 2018 includes goodwill impairment charges totaling $795.6 million and an intangible asset charge of $11.2 million. Excluding these impairment charges, operating earnings would have declined to $272.9 million for fiscal 2018, primarily as a result of the decline in net sales and gross margin, which were partially offset by lower SG&A expense. The decline in gross margin is primarily due to a shift in sales mix to lower margin categories and higher promotional activity in fiscal 2018.

Canada

Segment results for Canada include retail and e-commerce in Canada. Net sales of $434.5 million for fiscal 2018 was essentially flat compared to net sales of $434.9 million in fiscal 2017. Comparable store sales increased by 3.1%, which was offset by the negative impact of foreign exchange rate fluctuations of $9.2 million and the impact of the 53rd week in fiscal 2017 of approximately $6.4 million. The increase in comparable store sales was primarily driven by increases in sales of collectibles and video game accessories, partially offset by a decline in sales of pre-owned and value video game products and new video game hardware. The operating loss for fiscal 2018 was $19.3 million compared to operating earnings of $18.5 million for fiscal 2017. The operating loss for fiscal 2018 includes goodwill impairment charges totaling $28.8 million. Excluding the goodwill impairment charge, operating earnings would have declined to $9.5 million for fiscal 2018, primarily as a result of a decline in gross profit due to a shift in sales mix to lower margin categories and higher SG&A driven by government-mandated pay increases.

Australia

Segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Net sales for fiscal 2018 decreased $56.8 million, or 8.1%, compared to fiscal 2017. The decrease in net sales was primarily the result of the negative impact of foreign exchange rate fluctuations of $30.6 million, the decrease in comparable store sales of 3.4% and the impact of the 53rd week in fiscal 2017 of approximately $10.1 million. The decrease in comparable store sales was primarily driven by decreases in the sales of new video game software, new video game hardware, collectibles and pre-owned and value video game products; partially offset by an increase in sales of video game accessories. The operating loss for fiscal 2018 was $46.5 million compared to operating earnings of $34.9 million for fiscal 2017. The operating loss for fiscal 2018 includes goodwill impairment charges totaling $66.4 million. Excluding the goodwill impairment charge, operating earnings would have declined to $19.9 million for fiscal 2018, primarily as a result of the decline in net sales.

Europe

Segment results for Europe include retail and e-commerce operations in 10 European countries. Net sales for fiscal 2018 decreased $128.8 million, or 8.4%, compared to fiscal 2017, primarily due to the 7.7% decrease in comparable store sales and the impact of the 53rd week in fiscal 2017 of approximately $25.1 million, partially offset by the positive impact of foreign exchange rate fluctuations of $13.6 million. The decrease in comparable store sales was primarily driven by decreases in sales of new video game hardware, new video game software and pre-owned and value video game products, partially offset by an increase in collectibles sales. The operating loss for fiscal 2018 was $102.3 million compared to operating earnings of $53.0 million for fiscal 2017. The operating loss for fiscal 2018 includes goodwill impairment charges totaling $79.9 million, an intangible asset impairment charge of $31.9 million and the write-off of an investment asset of $6.8 million. Excluding these charges, operating earnings would have declined to $16.3 million for fiscal 2018, primarily as a result of the decline in net sales and higher SG&A expense driven by government-mandates pay increases.

Fiscal 2017 Compared to Fiscal 2016

United States

Segment results for Video Game Brands in the United States include retail GameStop operations in 50 states and Guam, the electronic commerce websites www.gamestop.com and www.thinkgeek.com, Game Informer magazine; Simply Mac; Kongregate, a web and mobile gaming platform which we sold in July 2017; and Cricket Wireless, which we sold in January 2018. Net sales for fiscal 2017 increased $216.0 million, or 3.8%, compared to fiscal 2016, primarily due to the 4.3% increase in comparable store sales and the impact of the 53rd week in fiscal 2017 of approximately $91.1 million. The increase in comparable store sales was primarily driven by the launch of the Nintendo Switch as well as increases in sales of collectibles and video game accessories. These increases were partially offset by a decrease of sales in pre-owned and value video game products. Operating earnings for fiscal 2017 decreased $65.6 million compared to fiscal 2016, primarily driven by declines in gross margin due to a shift in product mix from higher margin pre-owned products to lower margin products, such as hardware, and declines in gross margin rates in several product categories as described previously.

Canada

Segment results for Canada include retail and e-commerce in Canada. Net sales in the Canadian segment for fiscal 2017 increased $52.9 million, or 13.8%, compared to fiscal 2016, primarily due to a increase in comparable store sales of 10.0%, the positive impact of foreign exchange rate fluctuations of $11.6 million and the impact of the 53rd week in fiscal 2017 of approximately $6.4 million. The increase in comparable store sales was primarily driven by the launch of the Nintendo Switch as well as an increase in sales of collectibles, partially offset by a decline in sales of pre-owned and value video game products. Operating earnings for fiscal 2017 decreased $3.9 million, or 17.4% primarily driven by a decline in gross profit as a percentage of sales associated with a decline in pre-owned and value video game sales and their gross margin.

Australia

Segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Net sales in the Australian segment for fiscal 2017 increased $92.7 million, or 15.2%, compared to fiscal 2016. The increase in net sales was primarily the result of the increase in comparable store sales of 8.2%, the positive impact of foreign exchange rate fluctuations of $20.6 million, the impact of the 53rd week in fiscal 2017 of approximately $10.1 million. The increase in comparable store sales was primarily driven by the launch of the Nintendo Switch and an increase in the sales of collectibles. Operating earnings for fiscal 2017 were relatively flat at $34.9 million when compared to prior year, as a result of declines in gross profit as a percentage of sales due to a shift in product mix.

Europe

Segment results for Europe include retail and e-commerce operations in 10 European countries. Net sales in the European segment for fiscal 2017 increased $220.5 million, or 16.8%, compared to fiscal 2016, primarily due to the 9.5% increase in comparable store sales, the positive impact of foreign exchange rate fluctuations of $72.4 million and the impact of 53rd week in fiscal 2017 of approximately $25.1 million. The increase in comparable store sales was primarily driven by the launch of the Nintendo Switch and an increase in sales of collectibles, video game accessories and pre-owned and value video game products. Operating earnings for fiscal 2017 increased by $27.0 million compared to the prior year, primarily due to the increase in net sales and a $7.4 million impairment of our Micromania trade name recorded in fiscal 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

In September 2018, we announced that our Board of Directors was conducting a comprehensive review of strategic and financial alternatives to enhance stockholder value, including, but not limited to, a potential sale of the Company. On January 29, 2019, we announced that our Board of Directors terminated its efforts to pursue a sale of the Company. As of April 2, 2019, our Board of Directors has concluded its formal review of strategic and financial alternatives. In connection with this review, we have taken the following actions:

- On January 16, 2019, we completed the sale of Spring Mobile for cash proceeds of $727.9 million, net of transaction costs and preliminary adjustments;
- On March 4, 2019, we announced that our Board of Directors approved a new $300.0 million share repurchase authorization to replace the previous share repurchase authorization, which had $170.2 million remaining; and
- We issued a notice of redemption to redeem all of our $350.0 million unsecured senior notes due October 2019. The redemption date will be April 4, 2019, and we expect to use cash on hand.

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

As of February 2, 2019, we had total cash on hand of $1.6 billion and an additional $385.1 million of available borrowing capacity under our revolving credit facility. Our cash on hand attributable to foreign operations totaled $288.6 million as of February 2, 2019. Although we may, from time to time, evaluate strategies and alternatives with respect to the cash attributable to our foreign operations, we currently anticipate that this cash will remain in those foreign jurisdictions and it therefore may not be available for immediate use in the United States.

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under our $420.0 million asset-based revolving credit facility together will provide sufficient liquidity to fund our operations, capital expenditures, store openings and remodeling activities and corporate capital allocation programs, share and debt repurchases and the payment of dividends (if any) declared by the Board of Directors, for at least the next 12 months.

Cash Flows

During fiscal 2018, cash provided by operations was $325.1 million, compared to cash provided by operations of $434.9 million in fiscal 2017. The decrease in cash provided by operations of $109.8 million was primarily due to lower earnings, adjusted for non-cash items, in fiscal 2018 compared to the prior year.

During fiscal 2017, cash provided by operations was $434.9 million, compared to cash provided by operations of $537.1 million in fiscal 2016. The decrease in cash provided by operations of $102.2 million from fiscal 2016 to fiscal 2017 was primarily due to the timing of vendor payments and lower earnings in fiscal 2017.

Cash provided by investing activities was $635.5 million in fiscal 2018 compared to cash used in investing activities of $60.6 million in fiscal 2017 and $577.4 million in fiscal 2016. The increase in cash provided by investing activities in fiscal 2018 compared to fiscal 2017 was primarily due to the $727.9 million in proceeds from the sale of Spring Mobile. The decrease in cash used in investing activities in fiscal 2017 compared to 2016 was due to lower acquisition activity and $55.0 million in proceeds from the sale of Kongregate in fiscal 2017. Cash paid for acquisitions totaled $8.5 million in fiscal 2017 and $441.2 million in fiscal 2016 of which the significant majority was related to the Spring Mobile business. We had no acquisitions in fiscal 2018. Capital expenditures totaled $93.7 million, $113.4 million and $142.7 million in fiscal 2018, fiscal 2017 and fiscal 2016, respectively.

In fiscal 2018, our financing activities were a net cash outflow of $174.7 million consisting primarily of dividends paid of $157.4 million and repayment of acquisition-related debt of $12.2 million. The cash flows used in financing activities in fiscal 2017 consisted primarily of dividends paid of $155.2 million, the settlement of share repurchases of $22.0 million that were initiated in fiscal 2016 and repayment of acquisition-related debt of $21.8 million. The cash flows provided by financing activities in fiscal 2016 primarily consisted of $466.9 million in proceeds, net of financing costs, from the issuance of our 2021 Senior Notes, partially offset by dividends paid of $155.5 million and share repurchases of $63.1 million.

Sources of Liquidity

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

We maintain an asset-based revolving credit facility (the "Revolver") with a borrowing base capacity of $420 million and a maturity date of November 2022. The Revolver has a $200 million expansion feature and $50 million letter of credit sublimit, and allows for an incremental $50 million first-in, last-out facility. The applicable margins for prime rate loans range from 0.25% to 0.50% and, for London Interbank Offered ("LIBO") rate loans, range from 1.25% to 1.50%. The Revolver is secured by substantially all of our assets and the assets of our domestic subsidiaries. We are required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Amended Revolver. As of February 2, 2019, the applicable margin was 0.25% for prime rate loans and 1.25% for LIBO rate loans. As of February 2, 2019, total availability under the Revolver was $385.1 million, with no outstanding borrowings and outstanding standby letters of credit of $7.2 million.

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

In September 2014, we issued $350.0 million aggregate principal amount of unsecured 5.50% senior notes due October 1, 2019 (the "2019 Senior Notes," and together with the 2021 Senior Notes, the “Senior Notes”). Interest is payable semi-annually in arrears on April 1 and October 1 of each year. The net proceeds from the offering were used for general corporate purposes, including acquisitions and dividends. On March 4, 2019, we issued a notice of redemption to redeem all of our $350.0 million unsecured senior notes due October 2019. The redemption date will be April 4, 2019 and the redemption price will be equal to $1,000 per $1,000 principal amount of the 2019 Senior Notes, representing 100.0% of the aggregate principal amount being redeemed, plus accrued but unpaid interest. We expect to use cash on hand for the redemption of the 2019 Senior Notes.

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

See Note 10, “Debt,” to our consolidated financial statements for additional information related to our Revolver and Senior Notes.

Our Luxembourg subsidiary maintains a discretionary $20.0 million Uncommitted Line of Credit (the “Line of Credit”) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of February 2, 2019, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $9.4 million.

Share Repurchase Program

From time to time, we have repurchased our common shares through open market transactions under share repurchase authorizations approved by our Board of Directors. We have not repurchased any shares of common stock since fiscal 2016. Our share repurchase authorizations do not require us to acquire any specific number of shares and may be terminated at any time. Shares repurchased have been subsequently retired. On March 4, 2019, our Board of Directors approved a new share repurchase authorization allowing our management to repurchase up to $300 million of our Class A Common Stock with no expiration date. The new share repurchase authorization replaces the previous share repurchase authorization, which had $170.2 million remaining. We did not repurchase shares during fiscal 2018 or fiscal 2017. Share repurchase activity for fiscal 2016 is as follows (in millions, except for per share data):

	Fiscal Year 2016
Total number of shares purchased	3.0
Average price per share	$24.94
Aggregate value of shares purchased	$75.1

Dividends

We paid cash dividends of $157.4 million, $155.2 million and $155.5 million in fiscal 2018, 2017 and 2016. On March 4, 2019, our Board of Directors authorized a quarterly cash dividend of $0.38 per share of Class A Common Stock. The first quarterly dividend of fiscal 2019 was paid on March 29, 2019 to stockholders of record on March 15, 2019. Future dividends will be subject to approval by our Board of Directors. 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 as stated above. See Note 10, "Debt," to our consolidated financial statements for further information regarding our Senior Notes.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of February 2, 2019 (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating leases	$947.0	$296.2	$357.8	$176.8	$116.2
Purchase obligations(1)	595.8	595.7	0.1	—	—
2019 Senior Notes	350.0	350.0	—	—	—
2021 Senior Notes	475.0	—	475.0	—	—
Interest payments on senior notes	99.4	51.3	48.1	—	—
Total(2)	$2,467.2	$1,293.2	$881.0	$176.8	$116.2

(1) Purchase obligations represent outstanding purchase orders for merchandise from vendors. These purchase orders are generally cancelable until shipment of the products.

(2) As of February 2, 2019, we had $17.7 million of income tax liability related to unrecognized tax benefits in other long-term liabilities in our consolidated balance sheet. At the time of this filing, the settlement period for the noncurrent portion of our income tax liability (and the timing of any related payments) cannot be reasonably

determined and therefore these liabilities are excluded from the table above. In addition, certain payments related to unrecognized tax benefits would be partially offset by reductions in payments in other jurisdictions. See Note 8, "Income Taxes," to our consolidated financial statements for further information regarding our uncertain tax positions.

We lease retail stores, warehouse facilities, office space and equipment. These are generally leased under noncancelable agreements that expire at various dates with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for minimum and, in some cases, percentage rentals and require us to pay all insurance, taxes and other maintenance costs. Percentage rentals are based on sales performance in excess of specified minimums at various stores.

As of February 2, 2019, we had standby letters of credit outstanding in the amount of $7.2 million and had bank guarantees outstanding in the amount of $24.1 million, $8.1 million of which are cash collateralized.

OFF-BALANCE SHEET ARRANGEMENTS

Other than operating leases entered into in the normal course of business, we had no material off-balance sheet arrangements as of February 2, 2019.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by us could have a significant impact on our financial results, and actual results could differ from those estimates. Our senior management has discussed the development and selection of these critical accounting policies, as well as the significant accounting policies disclosed in Note 1, "Nature of Operations and Summary of Significant Accounting Policies," to our consolidated financial statements, with the Audit Committee of our Board of Directors. We believe the following accounting policies are the most critical to aid in fully understanding and evaluating our reporting of transactions and events, and the estimates these policies involve require our most difficult, subjective or complex judgments.

Valuation of Merchandise Inventories

Estimate Description. Our merchandise inventories are carried at the lower of cost or market generally using the average cost method. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units. Pre-owned video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer.

Judgment and/or Uncertainty. In valuing inventory, we are required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. We consider quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions.

Potential Impact if Results Differ. Our ability to gauge these factors is dependent upon our ability to forecast customer demand and to provide a well-balanced merchandise assortment. Any inability to forecast customer demand properly could lead to increased costs associated with write-downs of inventory to reflect volumes or pricing of inventory which we believe represents the net realizable value. A 10% change in our obsolescence reserve percentage at February 2, 2019 would have affected net earnings by approximately $2.6 million in fiscal 2018.

Cash Consideration Received from Vendors

Estimate Description. We participate in cooperative advertising programs and other vendor marketing programs in which our vendors provide us with cash consideration in exchange for marketing and advertising the vendors’ products. The cooperative advertising programs and other vendor marketing programs generally cover a period from a few weeks up to a month and include items such as product in-store display promotions and placement, internet advertising, co-op print advertising and other programs. The allowance for each event is negotiated with the vendor and requires specific performance by us to be earned.

Judgment and/or Uncertainty. Our accounting for cooperative advertising arrangements and other vendor marketing programs results in a significant portion of the consideration received from our vendors reducing the product costs in inventory rather than as an offset to our marketing and advertising costs. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. We estimate the amount of vendor allowances to be deferred as a reduction of inventory based on the nature of the consideration received and the merchandise inventory to which the consideration relates.

We apply a sell-through rate to determine the timing in which the consideration should be recognized in cost of sales. Consideration received that relates to video game products that have not yet been released to the public is deferred.

Potential Impact if Results Differ. Although we consider our advertising and marketing programs to be effective, we do not believe that we would be able to incur the same level of advertising expenditures if the vendors decreased or discontinued their allowances. Additionally, if actual results are not consistent with our estimated deferrals and sell-through rates, we may be exposed to additional adjustments that could materially impact our gross profit rates and inventory balances. A 10% difference in our vendor allowances deferral at February 2, 2019 would have affected net earnings by approximately $1.8 million in fiscal 2018.

32

Customer Liabilities
Estimate Description. Our PowerUp Rewards loyalty program allows enrolled members to earn points on purchases in our stores and on some of our websites that can be redeemed for rewards and discounts. We allocate the transaction price between the product and loyalty points earned based on the relative stand-alone selling prices and expected point redemption. The portion allocated to the loyalty points is initially recorded as deferred revenue and subsequently recognized as revenue upon redemption or expiration. The two primary estimates utilized to record the deferred revenue for loyalty points earned by members are the estimated retail price per point and estimated amount of points that will never be redeemed, which is a concept known in the retail industry as "breakage."
Additionally, we sell gift cards to our customers in our retail stores, through our website and through selected third parties. At the point of sale, a liability is established for the value of the gift card. We recognize revenue from gift cards when the card is redeemed by the customer and recognize estimated breakage on gift cards in proportion to historical redemption patterns, regardless of the age of the unredeemed gift cards.
Judgment and/or Uncertainty. The two primary estimates utilized to record the balance sheet liability for loyalty points earned by members are the estimated redemption rate and the estimated weighted-average retail price per point redeemed. We use historical redemption rates experienced under our loyalty program as a basis for estimating the ultimate redemption rate of points earned. The estimated retail price per point is based on the actual historical retail prices of product purchased through the redemption of loyalty points. We estimate breakage of loyalty points and unredeemed gift cards based on historical redemption rates. A weighted-average retail price per point redeemed is used to estimate the value of our deferred revenue associated with loyalty points. The weighted-average retail price per point redeemed is based on our most recent actual loyalty point redemptions and is adjusted as appropriate for recent changes in redemption values, including the mix of rewards redeemed. Our estimate of the amount and timing of gift card redemptions is based primarily on historical transaction experience.
Potential Impact if Results Differ. We continually evaluate our methodology and assumptions based on developments in redemption patterns, retail price per point redeemed and other factors. Changes in the ultimate redemption rate and weighted-average retail price per point redeemed have the effect of either increasing or decreasing the deferred revenue balance through current period revenue by an amount estimated to cover the retail value of all points previously earned but not yet redeemed by loyalty program members as of the end of the reporting period. A 10% change in our customer loyalty program redemption rate or a 10% change in our weighted-average retail value per point redeemed at February 2, 2019, in each case, would have affected net earnings by approximately $3.4 million in fiscal 2018. A 10% change in our gift card breakage rate at February 2, 2019 would have affected net earnings by approximately $13.9 million in fiscal 2018.
Goodwill
Estimate Description. Goodwill results from acquisitions and represents the excess purchase price over the net identifiable assets acquired. We are required to evaluate our goodwill for impairment at least annually or whenever indicators of impairment are present. Our annual test is completed as of the beginning of the fourth fiscal quarter, and interim tests are conducted when circumstances indicate the carrying value of the goodwill may not be recoverable. As of February 2, 2019, our goodwill totaled $363.9 million. See Note 7, "Goodwill and Intangible Assets," to our consolidated financial statements for the allocation of our goodwill balance by reporting unit. In order to test goodwill for impairment, we compare a reporting unit's carrying amount to its estimated fair value. If the reporting unit’s carrying value exceeds its estimated fair value, then an impairment charge is recorded in the amount of the excess. Based on the results of our impairment tests performed in fiscal 2018, we recognized goodwill impairment charges totaling $795.6 million, $28.8 million, $66.4 million and $79.9 million for the United States, Canada, Australia and Europe segments, respectively. As of February 2, 2019, the United States is the only remaining segment with goodwill. The impairment charges were primarily the result of a sustained decline in our market capitalization and lower forecasted cash flows. See Note 7, "Goodwill and Intangible Assets" to our consolidated financial statements for additional information.
Judgment and/or Uncertainty. Considerable management judgment is necessary to estimate the fair value of our reporting units. The discounted cash flows analyses utilize a five- to seven-year cash flow projection with a terminal value, which are discounted using a risk-adjusted weighted-average cost of capital. The projected cash flows include numerous assumptions such as, among others, future sales trends, operating margins, store count and capital

expenditures, all of which are derived from our long-term financial forecasts. The projected sales trends include estimates related to the growth rate of the digital distribution of new video game software. In addition, we corroborate the aggregate fair value of our reporting units with our market capitalization, which may impact certain assumptions in our discounted cash flows analyses.

Potential Impact if Results Differ. Variations in any of the assumptions used in the discounted cash flow analyses may arrive at different estimated fair values that could result in a material impairment charge. Assuming all other factors unchanged, a 10% decrease in the projected net cash flows in our United States segment would result in additional impairment charges of approximately $50 million. Alternatively, assuming all other factors unchanged, an increase of 250 basis points to the discount rates utilized in the test of our United States segment would result in an additional impairment charge of approximately $10 million. Sustained declines in our stock price and related market capitalization could impact key assumptions and the estimated fair values of our reporting units that could result in material goodwill impairment charges. We can provide no assurance that we will not have impairment charges in future periods as a result of changes in our operating results, our assumptions or in our stock price.

Indefinite-lived Intangible Assets

Estimate Description. Indefinite-lived intangible assets were recorded as a result of acquisitions and primarily consist of the Micromania trade name. As this intangible asset is expected to contribute to cash flows indefinitely, it is not subject to amortization. We assess our indefinite-lived intangible assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our test is completed as of the beginning of the fourth quarter each fiscal year or whenever there are indicators that the indefinite-lived intangible assets may be impaired.

We value our trade names using a relief-from-royalty approach, which assumes the value of the trade name is the discounted cash flows of the amount that would be paid by a hypothetical market participant had they not owned the trade name and instead licensed the trade name from another company. As of February 2, 2019, our indefinite-lived intangible assets totaled $8.8 million.

As a result of our fiscal 2018 impairment tests, we recognized an impairment charge of $31.9 million associated with our Micromania trade name. The impairment charge was primarily the result of increases in discount rate assumptions, consistent with those utilized in the valuation of our segments for goodwill impairment testing. See Note 7, "Goodwill and Intangible Assets" to our consolidated financial statements for additional information.

Judgment and/or Uncertainty. In valuing our trade names, we are required to make certain assumptions regarding future cash flow projections to ensure that such projections represent reasonable market participant assumptions, to which an assumed marked-based royalty rate is applied. Additionally, management judgment is necessary in selecting an appropriate discount rate which is reflective of the inherent risk of holding a standalone intangible asset.

Potential Impact if Results Differ. Regarding our Micromania trade name, assuming all other factors unchanged, a 10% decline in sales in each forecast period, including the terminal period, would not result in an additional impairment charge. Alternatively, assuming all other factors unchanged, an increase of 250 basis points to the discount rate utilized in the test of Micromania trade name would not result in an additional impairment charge either. We can provide no assurance that we will not have impairment charges in future periods as a result of changes in our operating results or our assumptions.

Income Taxes

Estimate Description. We account for income taxes utilizing an asset and liability approach, and deferred taxes are determined based on the estimated future tax effect of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. 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. We maintain accruals for uncertain tax positions until examination of the tax year is completed by the taxing authority, available review periods expire or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount. Our liability for uncertain tax positions was $17.7 million as of February 2, 2019.

Additionally, a valuation allowance is recorded against a deferred tax asset if it is not more likely than not that the asset will be realized. Several factors are considered in evaluating the realizability of our deferred tax assets, including the remaining years available for carry forward, the tax laws for the applicable jurisdictions, the future profitability of the specific business units, and tax planning strategies. Our valuation allowance was $32.9 million as of February 2, 2019. See Note 8, "Income Taxes" to our consolidated financial statements for further information regarding income taxes.

Judgment and/or Uncertainty. Considerable management judgment is necessary to assess the inherent uncertainties related to the interpretations of complex tax laws, regulations and taxing authority rulings, as well as to the expiration of statutes of limitations in the jurisdictions in which we operate. 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 operations and to estimates of the amount of income to be derived in any given jurisdiction. We file our tax returns based on our understanding of the appropriate tax rules and regulations. However, complexities in the tax rules and our operations, as well as positions taken publicly by the taxing authorities, may lead us to conclude that accruals for uncertain tax positions are required. Additionally, several factors are considered in evaluating the realizability of our deferred tax assets, including the remaining years available for carry forward, the tax laws for the applicable jurisdictions, the future profitability of the specific business units, and tax planning strategies.

Potential Impact if Results Differ. Our judgments and estimates concerning uncertain tax positions may change as a result of evaluation of new information, such as the outcome of tax audits or changes to or further interpretations of tax laws and regulations. Our judgments and estimates concerning realizability of deferred tax assets could change if any of the evaluation factors change. If such changes take place, there is a risk that our effective tax rate could increase or decrease in any period, impacting our net earnings.

On December 22, 2017, the U.S. government passed the Tax Cuts and Jobs Act, significantly changing income tax law that affects U.S corporations. Key changes included a corporate tax rate reduction from 35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. We are required to recognize the effects of the tax law changes in the period of enactment, including the determination of the transition tax and the re-measurement of deferred taxes as well as to re-assess the realizability of our deferred tax assets. Subsequent to the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows companies to record provisional amounts related to the effects of the Tax Act during a measurement period not to extend beyond one year of the enactment date. We have since completed our analysis of the income tax effects of the Tax Act. Our provisional estimates were reduced by $22.7 million during the measurement period defined under SAB 118, based upon our analysis of our data and tax positions along with the new guidance from regulators and interpretations of the law.

RECENT ACCOUNTING STANDARDS AND PRONOUNCEMENTS

See Note 1, "Nature of Operations and Summary of Significant Accounting Policies," to our consolidated financial statements for recent accounting standards and pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk due to foreign currency and interest rate fluctuations, each as described more fully below.

Foreign Currency Risk

We use forward exchange contracts, foreign currency options and cross-currency swaps (together, the “foreign currency contracts”) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. The foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. For the fiscal year ended February 2, 2019, we recognized a $9.6 million gain in selling, general and administrative expenses related to derivative instruments. The aggregate fair value of the foreign currency contracts as of February 2, 2019 was a net liability of $0.2 million as measured by observable inputs obtained from market news reporting services, such as Bloomberg, and industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. A hypothetical strengthening or weakening of 10% in the foreign exchange rates underlying the foreign currency contracts from the market rate as of February 2, 2019 would result in a gain of $5.9 million or a loss of $4.8 million in value of the forwards, options and swaps.

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

Interest Rate Risk

Our Revolver’s per annum interest rate is variable and is based on one of (i) the U.S. prime rate, (ii) the LIBO rate or (iii) the U.S. federal funds rate. Our Senior Notes' per annum interest rate is fixed. We do not use derivative financial instruments to hedge interest rate exposure. We limit our interest rate risks by investing our excess cash balances in short-term, highly-liquid instruments with a maturity of one year or less. We do not expect any material losses from our invested cash balances. Additionally, a hypothetical 10% adverse movement in interest rates would not have a material impact on our financial condition, results of operations or cash flows and we therefore believe that we do not have significant interest rate exposure.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15(a)(1) and (2) of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act has been appropriately recorded, processed, summarized and reported on a timely basis and are effective in ensuring that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective because of the material weaknesses described below.

Notwithstanding the material weaknesses described below in Management's Annual Report on Internal Control Over Financial Reporting, management, including the principal executive officer and principal financial officer, believes that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in accordance with GAAP.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

A company's internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness for future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting, as of February 2, 2019, based on the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, known as (COSO). Based on such evaluation, the company's management concluded that as of February 2, 2019, the Company's internal control over financial reporting was not effective due to the material weaknesses described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

We have identified design and operating effectiveness deficiencies that constitute a material weakness in the principles associated with the control activities component of the COSO framework. These control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, (ii) selecting and developing control activities over information technology that contribute to the mitigation of risks and support achievement of objectives and (iii) deploying information technology control activities through policies that establish what is expected and procedures that put policies into action. Specifically, these control deficiencies primarily relate to end-user and privileged access to certain information technology systems that support our financial reporting process. As a result of these deficiencies, the related process-level manual and automated application controls that rely on information generated from the affected information technology systems were also deemed ineffective. These material weaknesses did not result in any identified misstatements to the financial statements, and there were no changes to previously released financial results.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of February 2, 2019. Deloitte & Touche LLP's opinion, as stated in their report which appears on page F-2 of this Annual Report on Form 10-K, is consistent with management's report on internal control over financial reporting as set forth above.

Remediation

Our management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weaknesses are remediated, including establishing and improving policies, procedures and control activities primarily associated with end-user and privileged access to certain information technology systems that support our financial reporting process.

We believe that these actions will remediate the material weaknesses. The material weaknesses will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of these material weaknesses will be completed by the end of fiscal 2019.

As we implement these remediation efforts, we may determine that additional steps may be necessary to remediate the material weaknesses. We cannot provide assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

Except for identification of the material weaknesses described above, there were no changes during the quarter ended February 2, 2019, in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of GameStop Corp.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of GameStop Corp. and subsidiaries (the “Company”) as of February 2, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the 52 week period ended February 2, 2019, of the Company and our report dated April 2, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

Design and operating effectiveness deficiencies that constitute a material weakness in the principles associated with the control activities component of the COSO framework. These control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels, (ii) selecting and developing control activities over information technology that contribute to the mitigation of risks and support achievement of objectives and (iii) deploying information technology control activities through policies that establish what is expected and procedures that put policies into action. Specifically, these control deficiencies primarily relate to end-user and privileged access to certain information technology systems that support the financial reporting process. As a result of these deficiencies, the related process-level manual and automated application controls that rely on information generated from the affected information technology systems were also deemed ineffective.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the 52 week period ended February 2, 2019, of the Company, and this report does not affect our report on such financial statements.

/s/ DELOITTE & TOUCHE LLP
Dallas, Texas
April 2, 2019

39

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Code of Ethics

We have adopted a Code of Ethics for Senior Financial and Executive Officers that is applicable to our Executive Chairman, Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, any Executive Vice President and any Vice President employed in a finance or accounting role. We have also adopted a Code of Standards, Ethics and Conduct applicable to all of our management-level employees. Each of the Code of Ethics and Code of Standards, Ethics and Conduct are available on our website at www.gamestop.com.

In accordance with SEC rules, we intend to disclose any amendment (other than any technical, administrative, or other non-substantive amendment) to either of the above Codes, or any waiver of any provision thereof with respect to any of the executive officers listed in the paragraph above, on our website (www.gamestop.com) within four business days following such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION*

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES*

* The information not otherwise provided herein that is required by Items 10, 11, 12, 13 and 14 will be set forth in the definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on or around June 25, 2019 which is to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) The following documents are filed as a part of this Form 10-K:

(1) Index and Consolidated Financial Statements

The list of consolidated financial statements set forth in the accompanying Index to Consolidated Financial Statements at page F-1 herein is incorporated herein by reference. Such consolidated financial statements are filed as part of this Form 10-K.

(2) Financial Statement Schedules required to be filed by Item 8 of this Form 10-K:

The following financial statement schedule for the 52 weeks ended February 2, 2019, 53 weeks ended February 3, 2018 and the 52 weeks ended January 28, 2017 is filed as part of this Form 10-K and should be read in conjunction with our Consolidated Financial Statements appearing elsewhere in this Form 10-K. All other schedules are omitted because they are not applicable.

(b) Exhibits

The information required by this Section (b) of Item 15 is set forth on the Exhibit Index that follows the Consolidated Financial Statements and Notes to Consolidated Financial Statements appearing elsewhere in this Form 10-K.

Schedule II — Valuation and Qualifying Accounts

For the 52 weeks ended February 2, 2019, 53 weeks ended February 3, 2018 and the 52 weeks ended January 28, 2017:

	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts-Accounts Payable (1)	Deductions-Write-Offs Net of Recoveries (2)	Balance at End of Period
	(In millions)				
Inventory Reserve(3)					
52 Weeks Ended February 2, 2019	$59.2	$ 50.1	$ 46.7	$ (86.6)	$ 69.4
53 Weeks Ended February 3, 2018	$59.0	$ 57.3	$ 50.7	$ (107.8)	$ 59.2
52 Weeks Ended January 28, 2017	$61.5	$ 47.5	$ 49.6	$ (99.6)	$ 59.0
Valuation Allowance for Deferred Tax Assets					
52 Weeks Ended February 2, 2019	$36.9	$ —	$ —	$ (4.0)	$ 32.9
53 Weeks Ended February 3, 2018	$39.4	$ 3.6	$ —	$ (6.1)	$ 36.9
52 Weeks Ended January 28, 2017	$18.8	$ 20.9	$ —	$ (0.3)	$ 39.4

(1) Consists primarily of amounts received from vendors for defective allowances.

(2) The 52 weeks ended February 2, 2019 includes the disposition of $3.6 million of Spring Mobile inventory reserves as of the date of the sale.

(3) Includes inventory reserve activity related to Spring Mobile. Spring Mobile was sold in January 2019.

ITEM 16. FORM 10-K SUMMARY

None.

41

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

GAMESTOP CORP.

By: /s/ SHANE S. KIM
Shane S. Kim
Interim Chief Executive Officer and Director

Date: April 2, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ SHANE S. KIM Shane S. Kim	Interim Chief Executive Officer and Director (Principal Executive Officer)	April 2, 2019
/s/ DANIEL A. DEMATTEO Daniel A. DeMatteo	Executive Chairman and Director	April 2, 2019
/s/ ROBERT A. LLOYD Robert A. Lloyd	Chief Operating Officer and Chief Financial Officer (Principal Financial Officer)	April 2, 2019
/s/ TROY W. CRAWFORD Troy W. Crawford	Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)	April 2, 2019
/s/ JEROME L. DAVIS Jerome L. Davis	Director	April 2, 2019
/s/ THOMAS N. KELLY JR. Thomas N. Kelly Jr.	Director	April 2, 2019
/s/ STEVEN R. KOONIN Steven R. Koonin	Director	April 2, 2019
/s/ CARRIE W. TEFFNER Carrie W. Teffner	Director	April 2, 2019
/s/ GERALD R. SZCZEPANSKI Gerald R. Szczepanski	Director	April 2, 2019
/s/ KATHY P. VRABECK Kathy P. Vrabeck	Director	April 2, 2019
/s/ LAWRENCE S. ZILAVY Lawrence S. Zilavy	Director	April 2, 2019

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of GameStop Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of GameStop Corp. and subsidiaries (the "Company") as of February 2, 2019 and February 3, 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows, for the 52 week period ended February 2, 2019, 53 week period ended February 3, 2018 and 52 week period ended January 28, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2019 and February 3, 2018, and the results of its operations and its cash flows for each of the 52 week period ended February 2, 2019, 53 week period ended February 3, 2018 and 52 week period ended January 28, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2019, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2019, expressed an adverse opinion on the Company’s internal control over financial reporting because of material weaknesses.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP
Dallas, Texas
April 2, 2019

We have served as the Company's auditor since 2013.

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

	February 2, 2019	February 3, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,624.4	$ 854.2
Receivables, net	134.2	138.6
Merchandise inventories, net	1,250.5	1,250.3
Prepaid expenses and other current assets	118.6	115.2
Assets held for sale	—	660.1
Total current assets	3,127.7	3,018.4
Property and equipment:		
Land	18.7	19.9
Buildings and leasehold improvements	638.2	651.8
Fixtures and equipment	900.2	914.6
Total property and equipment	1,557.1	1,586.3
Less accumulated depreciation	1,235.8	1,235.3
Property and equipment, net	321.3	351.0
Deferred income taxes	147.3	158.2
Goodwill	363.9	1,350.5
Other intangible assets, net	33.5	92.5
Other noncurrent assets	50.6	71.0
Total noncurrent assets	916.6	2,023.2
Total assets	$ 4,044.3	$ 5,041.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,051.9	$ 892.3
Accrued liabilities	752.8	950.1
Income taxes payable	27.2	37.5
Current portion of debt, net	349.2	—
Liabilities held for sale	—	50.9
Total current liabilities	2,181.1	1,930.8
Deferred income taxes	0.1	5.0
Long-term debt, net	471.6	817.9
Other long-term liabilities	55.3	73.4
Total long-term liabilities	527.0	896.3
Total liabilities	2,708.1	2,827.1
Commitments and contingencies (Notes 8, 11 and 12)		
Stockholders' equity:		
Class A common stock — $.001 par value; authorized 300.0 shares; 102.0 and 101.3 shares issued, 102.0 and 101.3 shares outstanding, respectively	0.1	0.1
Additional paid-in capital	27.7	22.1
Accumulated other comprehensive (loss) income	(54.3)	12.2
Retained earnings	1,362.7	2,180.1
Total stockholders' equity	1,336.2	2,214.5
Total liabilities and stockholders' equity	$ 4,044.3	$ 5,041.6

See accompanying notes to consolidated financial statements.

F-3

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

	Fiscal Year		
	2018	2017	2016
Net sales	$8,285.3	$8,547.1	$7,965.0
Cost of sales	5,977.2	6,062.2	5,465.1
Gross profit	2,308.1	2,484.9	2,499.9
Selling, general and administrative expenses	1,888.6	1,909.6	1,861.9
Depreciation and amortization	105.6	122.3	136.7
Goodwill impairments	970.7	—	—
Asset impairments	45.2	13.8	19.6
Operating (loss) earnings	(702.0)	439.2	481.7
Interest income	(5.7)	(1.5)	(0.8)
Interest expense	56.8	56.8	53.8
(Loss) earnings from continuing operations before income taxes	(753.1)	383.9	428.7
Income tax expense	41.7	153.5	124.2
Net (loss) income from continuing operations	(794.8)	230.4	304.5
Income (loss) from discontinued operations, net of tax	121.8	(195.7)	48.7
Net (loss) income	$(673.0)	$34.7	$353.2
Basic (loss) earnings per share:			
Continuing operations	$(7.79)	$2.27	$2.94
Discontinued operations	1.19	(1.93)	0.47
Basic (loss) earnings per share	$(6.59)	$0.34	$3.42
Diluted (loss) earnings per share:			
Continuing operations	$(7.79)	$2.27	$2.93
Discontinued operations	1.19	(1.93)	0.47
Diluted (loss) earnings per share	$(6.59)	$0.34	$3.40
Weighted-average shares outstanding:			
Basic	102.1	101.4	103.4
Diluted	102.1	101.5	103.8

See accompanying notes to consolidated financial statements.

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

	Fiscal Year		
	2018	2017	2016
Net (loss) income	$(673.0)	$34.7	$353.2
Other comprehensive income (loss):			
Foreign currency translation adjustments	(63.4)	59.5	41.5
Reclassification of realized gain on foreign currency translation adjustments, net of tax of $0	(3.1)	—	—
Total comprehensive (loss) income	$(739.5)	$94.2	$394.7

See accompanying notes to consolidated financial statements.

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

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at January 31, 2016	103.3	$ 0.1	$ —	$ (88.8)	$2,169.7	$ 2,081.0
Net income	—	—	—	—	353.2	353.2
Foreign currency translation	—	—	—	41.5	—	41.5
Dividends declared, $1.48 per common share	—	—	—	—	(155.1)	(155.1)
Stock-based compensation	—	—	17.8	—	—	17.8
Repurchases of common stock	(3.0)	—	(8.6)	—	(66.5)	(75.1)
Settlement of stock-based awards (including tax deficiency of $0.8)	0.7	—	(9.2)	—	—	(9.2)
Balance at January 28, 2017	101.0	0.1	—	(47.3)	2,301.3	2,254.1
Net income	—	—	—	—	34.7	34.7
Foreign currency translation	—	—	—	59.5	—	59.5
Dividends declared, $1.52 per common share	—	—	—	—	(155.9)	(155.9)
Stock-based compensation	—	—	25.6	—	—	25.6
Settlement of stock-based awards	0.3	—	(3.5)	—	—	(3.5)
Balance at February 3, 2018	101.3	0.1	22.1	12.2	2,180.1	2,214.5
Adoption of ASU 2014-09 (Note 1)	—	—	—	—	11.5	11.5
Net loss	—	—	—	—	(673.0)	(673.0)
Foreign currency translation	—	—	—	(66.5)	—	(66.5)
Dividends declared, $1.52 per common share	—	—	—	—	(155.9)	(155.9)
Stock-based compensation	—	—	10.7	—	—	10.7
Settlement of stock-based awards	0.7	—	(5.1)	—	—	(5.1)
Balance at February 2, 2019	102.0	$ 0.1	$ 27.7	$ (54.3)	$1,362.7	$ 1,336.2

See accompanying notes to consolidated financial statements.

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

	Fiscal Year		
	2018	2017	2016
Cash flows from operating activities:			
Net (loss) income	$(673.0)	$34.7	$353.2
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities:			
Depreciation and amortization (including amounts in cost of sales)	126.9	151.9	166.7
Provision for inventory reserves	57.3	59.1	48.6
Goodwill and asset impairments	1,015.9	395.1	33.8
Stock-based compensation expense	10.7	25.6	17.8
Deferred income taxes	(4.1)	(107.9)	(37.2)
Excess tax benefits related to stock-based awards	—	—	0.8
Loss on disposal of property and equipment	2.0	8.5	10.4
Gain on divestiture	(100.8)	(6.4)	—
Other	(36.2)	(34.2)	(33.1)
Changes in operating assets and liabilities:			
Receivables, net	(34.4)	35.7	(43.9)
Merchandise inventories	(44.7)	(256.3)	14.7
Prepaid expenses and other current assets	2.2	(1.2)	(11.4)
Prepaid income taxes and income taxes payable	(18.7)	(24.7)	(49.1)
Accounts payable and accrued liabilities	17.1	169.8	64.1
Changes in other long-term liabilities	4.9	(14.8)	1.7
Net cash flows provided by operating activities	325.1	434.9	537.1
Cash flows from investing activities:			
Purchase of property and equipment	(93.7)	(113.4)	(142.7)
Acquisitions, net of cash acquired	—	(8.5)	(441.2)
Proceeds from divestiture, net of cash sold	727.9	58.5	—
Other	1.3	2.8	6.5
Net cash flows provided by (used in) investing activities	635.5	(60.6)	(577.4)
Cash flows from financing activities:			
Repayment of acquisition-related debt	(12.2)	(21.8)	(0.4)
Repurchase of common shares	—	(22.0)	(63.1)
Dividends paid	(157.4)	(155.2)	(155.5)
Proceeds from senior notes	—	—	475.0
Borrowings from the revolver	154.0	373.0	545.0
Repayments of revolver borrowings	(154.0)	(373.0)	(545.0)
Payments of financing costs	—	—	(8.1)
Issuance of common stock, net of share repurchases for withholding taxes	(5.1)	(3.5)	(8.4)
Excess tax benefits related to stock-based awards	—	—	(0.8)
Net cash flows (used in) provided by financing activities	(174.7)	(202.5)	238.7
Exchange rate effect on cash and cash equivalents and restricted cash	(24.7)	28.0	21.1
Decrease (increase) in cash held for sale	10.2	(5.4)	(2.2)
Increase in cash and cash equivalents	771.4	194.4	217.3
Cash and cash equivalents and restricted cash at beginning of period	869.1	674.7	457.4
Cash and cash equivalents and restricted cash at end of period	$1,640.5	$869.1	$674.7
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$53.5	$53.4	$38.0

Income taxes paid	$122.9	$168.3	$230.1

See accompanying notes to consolidated financial statements.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

The Company

GameStop Corp. (“GameStop,” “we,” “us,” “our,” or the “Company”) is a global, multichannel video game and consumer electronics retailer. We operate over 5,800 stores across 14 countries. Our consumer product network also includes www.gamestop.com; Game Informer® magazine, the world's leading print and digital video game publication; and ThinkGeek, www.thinkgeek.com, the premier retailer for the global geek community featuring exclusive and unique video game and pop culture products, and Simply Mac, which sells the full line of Apple products, including laptops, tablets, and smartphones and offers Apple certified warranty and repair services.

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

Our largest vendors in our video game brands business are Nintendo, Sony, Microsoft, Take-Two Interactive and Activision Blizzard, which accounted for 23%, 22%, 10%, 6% and 4%, respectively, of our new product purchases in fiscal year 2018; 22%, 20%, 10%, 4% and 6%, respectively, in fiscal year 2017; and 10%, 24%, 14%, 5% and 6%, respectively, in fiscal year 2016.

Basis of Presentation and Consolidation

Our consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal year 2018 consisted of the 52 weeks ended on February 2, 2019 ("fiscal 2018"). 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").

Subsequent to the issuance of our consolidated financial statements included in our fiscal 2017 Annual Report on Form 10-K, we determined that certain previously disclosed amounts associated with supplemental cash flow information and segment information were incorrect. As a result, the interest paid amounts for fiscal 2017 and 2016, disclosed in the supplemental cash flow information section of our consolidated statements of cash flows, have been increased by $39.4 million and $14.7 million, respectively, to their correct amounts of $53.4 million and $38.0 million, respectively. The misstatements did not affect the previously reported cash flows from operating, investing or financing activities for fiscal 2017 and 2016, or the beginning or ending cash and cash equivalents balances previously reported for fiscal 2017 and 2016. Within Note 16, "Segment Information," total assets of the United States segment for fiscal 2017 have been increased by $1,925.8 million with a corresponding decrease to the total assets of the Europe segment to correct an error related to the consideration of intercompany balances in the computation of total assets by segment. The corrected total assets amount, as of February 3, 2018, for the United States of $2,919.0 million includes retrospective adjustments for deferred tax assets formerly associated with Spring Mobile and the total assets of Simply Mac. The corrected total assets amount, as of February 3, 2018, for Europe is $817.7 million. The misstatement did not affect the other reportable segments and did not affect any consolidated amounts. We evaluated the materiality of these misstatements from quantitative and qualitative perspectives and concluded that they were not material to the previously issued consolidated financial statements included in our fiscal 2017 Annual Report on Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by us could have a significant impact on our financial results. Actual results could differ from those estimates.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents
We consider all short-term, highly-liquid instruments purchased with a remaining maturity of three months or less to be cash equivalents. Our cash and cash equivalents are carried at cost, which approximates market value, and consist primarily of time deposits with highly rated commercial banks. From time to time depending upon interest rates, credit worthiness and other factors, we invest in money market investment funds holding direct U.S. Treasury obligations.
Restricted Cash
We consider bank deposits serving as collateral for bank guarantees issued on behalf of our foreign subsidiaries as restricted cash, which is included in prepaid expenses and other current assets and other noncurrent assets in our consolidated balance sheets. Our restricted cash was $16.1 million and $14.9 million as of February 2, 2019 and February 3, 2018, respectively.
Merchandise Inventories
Our merchandise inventories are carried at the lower of cost or market generally using the average cost method. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units. Pre-owned video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. We are required to make adjustments to inventory to reflect potential obsolescence or over-valuation as a result of cost exceeding market. In valuing inventory, we consider quantities on hand, recent sales, potential price protections, returns to vendors and other factors. Our ability to assess these factors is dependent upon our ability to forecast customer demand and to provide a well-balanced merchandise assortment. Inventory is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Inventory reserves as of February 2, 2019 and February 3, 2018 were $69.4 million and $56.1 million, respectively.
Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over their estimated useful lives ranging from two to ten years. Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases (generally ranging from one to ten years), including option periods in which the exercise of the option is reasonably assured. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the technology becomes operational. Our total depreciation expense was $96.7 million, $110.1 million and $123.3 million for fiscal 2018, 2017 and 2016, respectively.
We periodically review our property and equipment when events or changes in circumstances indicate that its carrying amounts may not be recoverable or its depreciation or amortization periods should be accelerated. We assess recoverability based on several factors, including our intention with respect to our stores and those stores' projected undiscounted cash flows. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds its fair value, determined based on an estimate of discounted future cash flows. We recorded impairment losses of $2.1 million, $2.8 million and $5.2 million in fiscal 2018, 2017 and 2016, respectively. See Note 4, "Asset Impairments," for further information regarding our asset impairment charges.
Goodwill and Intangible Assets
Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. Intangible assets are recorded apart from goodwill if they arise from a contractual right and are capable of being separated from the entity and sold, transferred, licensed, rented or exchanged individually. 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. Goodwill has been assigned to reporting units for the purpose of impairment testing. We have four operating segments—United States, Canada, Australia and Europe, which

also define our reporting units based upon the similar economic characteristics of operations within each segment, including the nature of products, product distribution, type of customer and separate management within these businesses.

In order to test goodwill for impairment, we compare a reporting unit's carrying amount to its estimated fair value. If the reporting unit's carrying value exceeds its estimated fair value, then an impairment charge is recorded in the amount of the excess. The estimated fair value of a reporting unit is determined based on its discounted cash flows, which are derived from our long-term financial forecasts. The discounted cash flows analysis requires significant assumptions including, among others, a discount rate and a terminal value. Goodwill impairment charges totaling $970.7 million were recognized in fiscal 2018. See Note 7, "Goodwill and Intangible Assets" for additional information. No goodwill impairment charges related to our continuing operations were recognized in fiscal 2017 and 2016.

Our indefinite-lived intangible assets consist of trade names and dealer agreements. Intangible assets that are determined to have an indefinite life are not amortized, but are required to be evaluated at least annually for impairment. If the carrying value of an individual indefinite-lived intangible asset exceeds its fair value, such individual indefinite-lived intangible asset is impaired by the amount of the excess. The fair value of our dealer agreements are estimated using a discounted cash flow analysis known as the Greenfield Method, which assumes that a business, at its inception, owns only dealer agreements and must make capital expenditure, working capital and other investments to ramp up its operations to a level that is comparable to its current operations. The fair value of our trade names are estimated by using a relief-from-royalty approach, which assumes the value of the trade name is the discounted cash flows of the amount that would be paid by a hypothetical market participant had they not owned the trade name and instead licensed the trade name from another company. As a result of our fiscal 2018, 2017 and 2016 annual impairment testing, we recognized impairment charges totaling \$43.1 million, \$11.0 million and \$14.4 million, respectively, primarily associated with our dealer agreements and trade names. See Note 7, "Goodwill and Intangible Assets" for additional information.

Our definite-lived intangible assets consist primarily of customer relationships, leasehold rights, advertising relationships and amounts attributed to favorable leasehold interests recorded as a result of business acquisitions. The estimated useful life and amortization methodology of intangible assets are determined based on the period in which they are expected to contribute directly to cash flows. Intangible assets that are determined to have a definite life are amortized over the life of the asset.

Revenue Recognition

We adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (ASC Topic 606), effective February 4, 2018 (the first day of fiscal 2018) utilizing the modified retrospective transition approach. Our revenue recognition policy discussed below is subsequent to the adoption of ASU 2014-09. See “—Recently Adopted Accounting Pronouncements” for information regarding our revenue recognition policy prior to the adoption of ASU 2014-09.

We recognize revenue when performance obligations are satisfied by transferring goods or services to the customer in an amount that we expect to collect in exchange for those goods or services. The satisfaction of a performance obligation with a single customer may occur at a point in time or may occur over time. The significant majority of our revenue is recognized at a point in time, generally when a customer purchases and takes possession of merchandise through our stores or when merchandise purchased through our e-commerce websites is delivered to a customer. We have arrangements with customers where our performance obligations are satisfied over time, which primarily relate to extended warranties and our Game Informer magazine. In arrangements where we have multiple performance obligations, the transaction price is allocated to each performance obligation based on their relative stand-alone selling price (see "—Loyalty Program").

Revenue is recognized net of sales discounts and net of an estimated sales return reserve. Our sales return policy is generally limited to 30 days or less and as such our sales returns are, and historically have been, immaterial. Revenues do not include sales taxes or other taxes collected from customers.

Advertising revenues for Game Informer are recorded upon release of magazines for sale to consumers. Subscription revenues for our PowerUp Rewards loyalty program and magazines are recognized on a straight-line basis over the subscription period. Revenue from the sales of product replacement plans is recognized on a straight-line basis over the coverage period. Customer liabilities and other deferred revenues for our PowerUp Rewards loyalty program, gift cards, customer credits, magazines and product replacement plans are included in accrued liabilities.

We also sell a variety of digital products which generally allow consumers to download software or play games on the internet. Certain of these products do not require us to purchase inventory or take physical possession of, or take title to, inventory. When purchasing these products from us, consumers pay a retail price and we earn a commission based on a percentage of the retail sale as negotiated with the product publisher. We recognize these commissions as revenue at the time of sale of these digital products.

Loyalty Program

Our loyalty program accounting policy discussed below is subsequent to the adoption of ASU 2014-09. See "—Recently Adopted Accounting Pronouncements" for information regarding our loyalty program accounting policy prior to the adoption of ASU 2014-09.

Our PowerUp Rewards loyalty program allows members to earn points on purchases that can be redeemed for rewards that include discounts or merchandise. When loyalty program members purchase our product, we allocate the transaction price between the product and loyalty points earned based on the relative stand-alone selling prices and expected point redemption. The portion allocated to the loyalty points is initially recorded as deferred revenue and subsequently recognized as revenue upon redemption or expiration.

F-10

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The two primary estimates utilized to record the deferred revenue for loyalty points earned by members are the estimated retail price per point and estimated breakage. The estimated retail price per point is based on the actual historical retail prices of product purchased through the redemption of loyalty points. We estimate breakage of loyalty points based on historical redemption rates. We continually evaluate our methodology and assumptions based on developments in retail price per point redeemed, redemption patterns and other factors. Changes in the retail price per point and redemption rates have the effect of either increasing or decreasing the deferred revenue liability through current period revenue by an amount estimated to represent the retail value of all points previously earned but not yet redeemed by loyalty program members as of the end of the reporting period. The cost of administering the loyalty program, including program administration fees, program communications and cost of loyalty cards, is recognized in selling, general and administrative expenses.

Customer Liabilities

Our customer liabilities accounting policy discussed below is subsequent to the adoption of ASU 2014-09. See "—Recently Adopted Accounting Pronouncements" for information regarding our customer liabilities accounting policy prior to the adoption of ASU 2014-09.

We establish a liability upon the issuance of merchandise credits and the sale of gift cards. Revenue is subsequently recognized when the credits and gift cards are redeemed. In addition, we recognize breakage in revenue upon redemption and in proportion to historical redemption patterns, regardless of the age of the unused gift cards and merchandise credit liabilities. To the extent that future redemption patterns differ from those historically experienced, there will be variations in the recorded breakage.

Vendor Arrangements

We and most of our largest vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide us with cash consideration in exchange for marketing and advertising the vendors' products. Our accounting for cooperative advertising arrangements and other vendor marketing programs results in a significant portion of the consideration received from our vendors reducing the product costs in inventory rather than as an offset to our marketing and advertising costs. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances to be recorded as a reduction of inventory is determined based on the nature of the consideration received and the merchandise inventory to which the consideration relates. We apply a sell-through rate to determine the timing in which the consideration should be recognized in cost of sales. Consideration received that relates to video game products that have not yet been released to the public is deferred as a reduction of inventory.

The cooperative advertising programs and other vendor marketing programs generally cover a period from a few days up to a few weeks and include items such as product catalog advertising, in-store display promotions, internet advertising, co-op print advertising and other programs. The allowance for each event is negotiated with the vendor and requires specific performance by us to be earned. Vendor allowances of $143.4 million, $162.5 million and $184.3 million were recorded as a reduction of cost of sales for fiscal 2018, 2017 and 2016, respectively.

Cost of Sales and Selling, General and Administrative Expenses Classification

The classification of cost of sales and selling, general and administrative expenses ("SG&A") varies across the retail industry. We include certain purchasing, receiving and distribution costs in SG&A in the consolidated statements of operations. We include processing fees associated with purchases made by check and credit cards in cost of sales in the consolidated statements of operations.

Advertising Expenses

We expense advertising costs for television, newspapers and other media when the advertising takes place. Advertising expenses for fiscal 2018, 2017 and 2016 totaled $72.9 million, $82.8 million and $76.3 million, respectively.

Income Taxes

Income tax expense includes federal, state, local and international income taxes. Income taxes are accounted for utilizing an asset and liability approach and deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial reporting basis and the tax basis of existing assets and liabilities using enacted tax rates. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In accordance with GAAP, we maintain liabilities for uncertain tax positions until examination of the tax year is completed by the applicable taxing authority, available review periods expire or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount. See Note 8, "Income Taxes," for additional information.

We plan on indefinitely reinvesting our unremitted foreign earnings outside the United States. Where foreign earnings are indefinitely reinvested, no provision for federal income or foreign withholding taxes is made. Should we have unremitted foreign earnings that are not indefinitely reinvested, United States income tax expense and foreign withholding taxes will be provided for at the time the earnings are generated.

Leases

We lease retail stores, warehouse facilities, office space and equipment. These assets and properties are generally leased under noncancelable agreements that expire at various dates with various renewal options for additional periods. The agreements, which are classified as operating leases, generally provide for minimum and, in some cases, percentage rentals and require us to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, which includes renewal option periods when we are reasonably assured of exercising the renewal options and includes “rent holidays” (periods in which we are not obligated to pay rent). Cash or lease incentives received upon entering into certain store leases (“tenant improvement allowances”) are recognized on a straight-line basis as a reduction to rent expense over the lease term, which includes renewal option periods when we are reasonably assured of exercising the renewal options. We record the unamortized portion of tenant improvement allowances as a part of deferred rent. We do not have leases with capital improvement funding. Percentage rentals are based on sales performance in excess of specified minimums at various stores and are accounted for in the period in which the amount of percentage rentals can be accurately estimated.

In February 2016, the FASB issued an update to current lease accounting standards; see "—Recent Accounting Pronouncements" for additional information.

Foreign Currency

Generally, we have determined that the functional currencies of our foreign subsidiaries are the subsidiaries’ local currencies. The assets and liabilities of the subsidiaries are translated at the applicable exchange rate as of the end of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of other comprehensive income. Currency translation adjustments related to divested foreign businesses are reclassified into earnings as a component of SG&A in our consolidated statements of operations once the liquidation of the respective foreign businesses is substantially complete.

Net gains from foreign currency transactions and derivatives are included in selling, general and administrative expenses and were $3.0 million, $2.4 million and $4.5 million in fiscal 2018, 2017 and 2016, respectively. The foreign currency transaction gains and losses are primarily due to the decrease or increase in the value of the U.S. dollar compared to the functional currencies of the countries in which we operate internationally.

We use forward exchange contracts, foreign currency options and cross-currency swaps (together, the “foreign currency contracts”) to manage currency risk primarily related to foreign-currency denominated intercompany assets and liabilities and certain other foreign currency assets and liabilities. These foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. See Note 5, "Fair Value Measurements and Financial Instruments," for additional information regarding our foreign currency contracts.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash flow issues in regard to how cash receipts and cash payments are presented and classified in the statement of cash flows. The FASB also issued ASU 2016-18, Restricted Cash, in November 2016 that requires entities to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented in the statement of cash flows. These updated standards are effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. We adopted these new standards on a retrospective basis, which did not result in a material impact to our consolidated financial statements.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As required by ASU 2016-18, we include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on our condensed consolidated statement of cash flows. The following table provides a reconciliation of cash and cash equivalents in the condensed consolidated balance sheets to total cash and cash equivalents and restricted cash in the condensed consolidated statements of cash flows (in millions):

	February 2, 2019	February 3, 2018	January 28, 2017
Cash and cash equivalents	$ 1,624.4	$ 854.2	$ 664.5
Restricted cash (included in prepaid expenses and other current assets)	2.7	—	—
Restricted cash (included in other noncurrent assets)	13.4	14.9	10.2
Total cash and cash equivalents and restricted cash in the statements of cash flows	$ 1,640.5	$ 869.1	$ 674.7

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which sets forth a new five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety. The underlying principle of the new standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The updated standard also requires additional disclosures on the nature, timing, and uncertainty of revenue and related cash flows. In 2016, the FASB issued several ASUs that further amended the new revenue standard in the areas of principal versus agent evaluation, licenses of intellectual property, identifying performance obligations, and other clarifications and technical corrections. We adopted the new revenue standard, effective February 4, 2018, by utilizing the modified retrospective transition approach.

The new revenue standard primarily impacted the accounting of our PowerUp Rewards loyalty program and the recognition of breakage associated with our gift cards liability. For our loyalty program, we previously estimated the net cost of the rewards that were issued and recorded this cost (presented as cost of sales) and the associated balance sheet liability as points were accumulated by our loyalty program members. Under the new standard, the transaction price is allocated between the product(s) and loyalty points earned based on the relative stand-alone selling prices and expected point redemption. The portion allocated to the loyalty points is initially recorded as deferred revenue and subsequently recognized as revenue upon redemption or expiration. For our gift cards liability, estimated breakage on unused gift cards and merchandise credit liabilities was previously recognized on a quarterly basis (recorded to cost of sales) to the extent that we believed the likelihood of redemption was remote, generally for balances older than two years. Under the new standard, we recognize breakage in revenue upon redemption and in proportion to historical redemption patterns, regardless of the age of the unused gift cards and merchandise credit liabilities. In addition, the new revenue standard requires presentation of our sales return reserve to be on a gross basis, consisting of a separate right of return asset and liability.

Consistent with the modified retrospective transition approach, we have applied the new revenue standard on a prospective basis, effective February 4, 2018, and recorded adjustments to our current period opening balance sheet (as of February 4, 2018) to reflect the cumulative effect of the new revenue standard. The cumulative-effect adjustment included a reduction of our gift card and customer deposit liabilities of $44.3 million, an increase to our loyalty program liabilities of $28.2 million and an increase to our retained earnings of $16.1 million ($11.5 million, net of tax). The cumulative-effect adjustment also included a $4.4 million increase to merchandise inventories, net and accrued liabilities to present our sales return reserve on a gross basis. The adoption of the new standard resulted in expanded revenue recognition disclosures which are included below in Note 3, “Revenue.”

The impact of the new revenue standard to our statements of operations for fiscal 2018 is as follows (in millions):

	Fiscal Year 2018		
	Under Prior Standard	Impact of New Standard	As Reported
Net sales	$8,240.7	$ 44.6	$8,285.3
Cost of sales	5,937.1	40.1	5,977.2
Gross profit	2,303.6	4.5	2,308.1
Operating (loss) earnings from continuing operations	(706.5)	4.5	(702.0)
(Loss) earnings from continuing operations before income taxes	(757.6)	4.5	(753.1)
Income tax expense	40.5	1.2	41.7
Net (loss) income from continuing operations	(798.1)	3.3	(794.8)

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The impact of the new revenue standard to our balance sheet as of February 2, 2019 is as follows (in millions):

	February 2, 2019		
	Under Prior Standard	Impact of New Standard	As Reported
Merchandise inventories, net	$1,246.1	$ 4.4	$1,250.5
Total current assets	3,123.3	4.4	3,127.7
Deferred income taxes	151.9	(4.6)	147.3
Total noncurrent assets	921.2	(4.6)	916.6
Total assets	4,044.5	(0.2)	4,044.3
Accrued liabilities	769.0	(16.2)	752.8
Income taxes payable	26.0	1.2	27.2
Total current liabilities	2,196.1	(15.0)	2,181.1
Total liabilities	2,723.1	(15.0)	2,708.1
Retained earnings	1,347.9	14.8	1,362.7
Total stockholders' equity	1,321.4	14.8	1,336.2
Total liabilities and stockholders' equity	4,044.5	(0.2)	4,044.3

Recent Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance is intended to more closely align hedge accounting with entities' hedging strategies, simplify the application of hedge accounting and increase the transparency of hedging programs.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. This ASU expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The provisions of ASU 2017-12 and ASU 2018-16 are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We do not anticipate that adoption of these standards will have a material impact to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard requires a lessee to recognize a liability related to lease payments and an offsetting right-of-use asset representing a right to use the underlying asset for the lease term on the balance sheet. Entities are required to use a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements, with certain reliefs available. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides clarifications and improvements to ASU 2016-02 including allowing entities to elect an additional transition method with which to adopt ASU 2016-02. The approved transition method enables entities to apply the transition requirements in this ASU at the effective date of ASU 2016-02 (rather than at the beginning of the earliest comparative period presented as currently required) with the effect of initially applying ASU 2016-02 recognized as a cumulative-effect adjustment to retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, Leases (Topic 840) ("ASC 840"), including the disclosure requirements of ASC 840. These ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted.

We will adopt the new standard in the first quarter of fiscal 2019, using the modified-retrospective transition approach as outlined in ASU 2018-11, including certain practical expedients, with no restatement of comparative periods and a cumulative effect adjustment recognized on the date of adoption. Under this transition approach, we will apply the new lease standard, effective February 3, 2019, and record adjustments to our fiscal 2019 opening balance sheet (as of

February 3, 2019) to reflect the cumulative effect of the new lease standard. We will also provide quantitative and qualitative disclosures of the new standard's impact to each of our financial statement line items during fiscal 2019. We continue to finalize our implementation efforts and currently estimate that the adoption of ASC 842 will result in recognition of an initial right-of-use asset and corresponding initial lease liability of approximately $850 million. We do not expect the adoption of the new lease standard to have a material impact to our consolidated statements of operations or statements of cash flows.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Discontinued Operations and Dispositions

Discontinued Operations

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

The historical results of Spring Mobile, including the gain on sale, are reported as discontinued operations in our consolidated statements of operations for all periods presented. The consolidated statement of cash flows is presented on a combined basis for all periods presented, therefore, does not segregate cash flows from continuing and discontinued operations. The results of our discontinued operations for fiscal 2018, 2017 and 2016 are as follows (in millions):

	Fiscal Year		
	2018	2017	2016
Net sales	$565.4	$677.5	$642.9
Cost of sales	73.1	122.3	133.5
Gross profit	492.3	555.2	509.4
Selling, general and administrative expenses	395.9	453.4	390.7
Depreciation and amortization	20.1	28.4	28.5
Goodwill impairments	—	32.8	—
Asset impairments	—	344.2	14.2
Operating earnings (loss)	76.3	(303.6)	76.0
Gain on sale of discontinued operations	100.8	—	—
Earnings (loss) from discontinued operations before income taxes	177.1	(303.6)	76.0
Income tax expense (benefit)	55.3	(107.9)	27.3
Net income (loss) from discontinued operations	$121.8	$(195.7)	$48.7

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

	February 3, 2018
Assets:	
Cash and cash equivalents	$ 10.2
Receivables, net	44.1
Merchandise inventories, net	116.4
Prepaid expenses and other current assets	9.7
Property and equipment, net	82.2
Goodwill	316.8
Other intangible assets, net	77.0
Other assets	3.7
Total assets held for sale	$ 660.1
Liabilities:	
Accounts payable	$ 9.7

Accrued liabilities	26.0
Other liabilities	15.2
Total liabilities held for sale	$ 50.9

F-15

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents capital expenditures, depreciation and amortization and other significant operating noncash items of our discontinued operations for fiscal 2018, 2017 and 2016 (in millions):

	Fiscal Year		
	2018	2017	2016
Capital expenditures	$7.5	$22.2	$36.9
Depreciation and amortization	20.1	28.4	28.5
Goodwill and asset impairments	—	377.0	14.2
Provision for inventory reserves	12.7	12.9	17.6

Disposition of Kongregate

On July 21, 2017, we sold our ownership interest in Kongregate, a web and mobile gaming platform and publisher of mobile games, for proceeds of $54.7 million, net of transaction costs, of which $3.5 million was restricted cash held in escrow primarily for indemnification purposes. We recognized a gain on the sale of $6.4 million, net of tax, which is classified in selling, general and administrative expenses in our consolidated statements of operations for fiscal 2017. The disposed net assets of Kongregate primarily consisted of goodwill.

Disposition of Cricket Wireless

On January 24, 2018, we sold 63 Cricket Wireless branded stores for proceeds of $3.8 million. The gain on the sale was not material to our results of operations for fiscal 2017. We had no remaining Cricket Wireless stores as of February 3, 2018.

3. Revenue

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

	Fiscal Year		
	2018	2017	2016
New video game hardware (1)	$1,767.8	$1,791.8	$1,396.7
New video game software	2,449.7	2,582.0	2,493.4
Pre-owned and value video game products	1,866.3	2,149.6	2,254.1
Video game accessories	956.5	784.3	676.7
Digital	194.0	189.2	181.0
Collectibles	707.5	636.2	494.1
Other (2)	343.5	414.0	469.0
Total	$8,285.3	$8,547.1	$7,965.0

(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 Simply Mac and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018. Also includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer electronics sold through our Video Game Brands segments, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

See Note 16, "Segment Information," for net sales by geographic location.

Performance Obligations

Effective February 4, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers, which set forth a new revenue recognition model that replaced the prior revenue recognition guidance in its entirety (see Note 1 above). The core principle of the new standard is that revenue is recognized when performance obligations are satisfied by transferring goods or services to the customer in an amount that the entity expects to collect in exchange for those goods or services. The satisfaction of a performance obligation with a single customer may occur at a point in time or may occur over time. The significant majority of our revenue is recognized at a point in time, generally when a customer purchases and takes possession of merchandise through our stores or when merchandise purchased through our e-commerce websites is delivered to a customer. We have arrangements with customers where our performance obligations are satisfied over time, which primarily relate to extended warranties and our Game Informer magazine. Revenues do not include sales taxes or other taxes collected from customers.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We expect to recognize revenue in future periods for remaining performance obligations we have associated with unredeemed gift cards, trade-in credits, reservation deposits and our PowerUp Rewards loyalty program (collectively, "unredeemed customer liabilities"), extended warranties and subscriptions to our Game Informer magazine. Performance obligations associated with unredeemed customer liabilities are primarily satisfied at the time our customers redeem their gift cards, trade-in credits, reservation deposits or loyalty program points for products that we offer. Unredeemed customer liabilities are generally redeemed within one year of issuance. As of February 2, 2019, our unredeemed customer liabilities totaled $262.0 million.

We offer extended warranties on certain new and pre-owned video game products with terms generally ranging from 12 to 24 months, depending on the product. Revenues for extended warranties sold are recognized on a straight-line basis over the life of the contract. As of February 2, 2019, our deferred revenue liability related to extended warranties totaled $70.4 million.

Performance obligations associated with subscriptions to our Game Informer magazine are satisfied when monthly magazines are delivered in print form or when made available in digital format. The significant majority of our customers' subscriptions is for 12 monthly issues. As of February 2, 2019, we had deferred revenue of $44.5 million associated with our Game Informer magazine.

Significant Judgments and Estimates

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

Contract Balances

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

	Contract Liabilities
Balance at February 3, 2018	$ 426.0
Adoption of ASU 2014-09	(16.8)
Increase to contract liabilities [(1)]	1,238.1
Decrease to contract liabilities [(2)]	(1,262.9)
Other adjustments [(3)]	(7.5)
Balance at February 2, 2019	$ 376.9

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

(2) Includes redemptions of gift cards, trade-in credits, loyalty points and reservation deposits as well as revenues recognized for Game Informer and extended warranties. During the 52 weeks ended February 2, 2019, there were $65.8 million of gift cards redeemed that were outstanding as of February 3, 2018.

(3) Primarily includes foreign currency translation adjustments.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Asset Impairments

A summary of our asset impairment charges, by reportable segment, for fiscal 2018, 2017 and 2016 is as follows (in millions):

	United States	Canada	Australia	Europe	Total
Fiscal 2018					
Intangible asset impairment charges	$ 11.2	$ —	$ —	$ 31.9	$43.1
Store and other asset impairment charges	1.3	—	0.2	0.6	2.1
Total	$ 12.5	$ —	$ 0.2	$ 32.5	$45.2
Fiscal 2017					
Intangible asset impairment charges	$ 11.0	$ —	$ —	$ —	$11.0
Store and other asset impairment charges	1.3	—	0.3	1.2	2.8
Total	$ 12.3	$ —	$ 0.3	$ 1.2	$13.8
Fiscal 2016					
Intangible asset impairment charges	$ 7.0	$ —	$ —	$ 7.4	$14.4
Store and other asset impairment charges	2.7	0.2	—	2.3	5.2
Total	$ 9.7	$ 0.2	$ —	$ 9.7	$19.6

See Note 7, "Goodwill and Intangible Assets," for information regarding our intangible asset impairment charges. Store and other asset impairment charges relate to our evaluation of store property, equipment and other assets in situations where an asset’s carrying value was not expected to be recovered by its future cash flows over its remaining useful life.

5. Fair Value Measurements and Financial Instruments

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

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

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

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

Our contingent consideration payable related to an acquisition completed by Spring Mobile during fiscal 2016. The contingent consideration was paid in two installments, with one payment occurring in each of the fiscal years 2017 and 2018. The fair value was estimated based on Level 3 inputs which include future sales projections derived from our historical experience with comparable acquired stores and a discount rate commensurate with the risks and inherent uncertainty in the business.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the fair value of our assets and liabilities measured on a recurring basis and recorded on our consolidated balance sheets (in millions):

	February 2, 2019		February 3, 2018	
	Level 2	Level 3	Level 2	Level 3
Assets:				
Foreign currency contracts [1]	$1.0	$ —	$2.4	$—
Company-owned life insurance[2]	14.6	—	13.9	—
Total assets	$15.6	$ —	$16.3	$—
Liabilities:				
Foreign currency contracts [3]	$1.2	$ —	$9.9	$—
Nonqualified deferred compensation[3]	1.1	—	1.2	—
Contingent consideration[3]	—	—	—	12.2
Total liabilities	$2.3	$ —	$11.1	$12.2

(1) Recognized in prepaid expenses and other current assets in our consolidated balance sheets.
(2) Recognized in other non-current assets in our consolidated balance sheets.
(3) Recognized in accrued liabilities in our consolidated balance sheets.

We use forward exchange contracts, foreign currency options and cross-currency swaps (together, the "foreign currency contracts") to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. These foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. The total gross notional value of derivatives related to our foreign currency contracts was $240.0 million and $563.3 million as of February 2, 2019 and February 3, 2018, respectively.

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

	Fiscal Year		
	2018	2017	2016
Gains (losses) on the changes in fair value of derivative instruments	$9.6	$(24.6)	$20.0
(Losses) gains on the re-measurement of related intercompany loans and foreign currency assets and liabilities	(6.6)	27.0	(15.5)
Net gains	$3.0	$2.4	$4.5

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

Assets that are Measured at Fair Value on a Nonrecurring Basis

Assets that are measured at fair value on a nonrecurring basis relate primarily to property and equipment and other intangible assets, which are remeasured when the estimated fair value is below its carrying value. For these assets, we do not periodically adjust carrying value to fair value; rather, when we determine that impairment has occurred, the carrying value of the asset is reduced to its fair value.

In fiscal 2018, we recognized impairment charges totaling $43.1 million related to intangible assets. We recognized impairment charges of $31.9 million and $5.3 million associated with our Micromania and ThinkGeek trade names, respectively, to reflect their fair values of $6.0 million and $2.8 million, respectively. We also recognized an impairment charge of $5.9 million associated with other ThinkGeek intangible assets, to reflect their fair values of zero.

In fiscal 2017 and 2016, we recognized impairment charges of $11.0 million and $7.0 million, respectively, associated with our Simply Mac Apple dealer agreement to reflect its fair value of zero and $11.0 million, respectively.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In fiscal 2016, we recognized impairment charges of $7.4 million, associated with our Micromania trade name, to reflect its fair value of $35.0 million.

In fiscal 2018, 2017 and 2016, we recognized impairment charges of $2.1 million, $2.8 million and $5.2 million, respectively, primarily associated store-level property and equipment, to reflect their fair values of zero.

The fair value estimates of the dealer agreements, trade names, customer relationship intangible assets and store-level property and equipment are based on significant unobservable inputs (Level 3) developed using company-specific information. These assets were valued using variations of the discounted cash flow method, which require assumptions associated with, among others, projected sales and cost estimates, capital expenditures, royalty rates, discount rates, terminal values and remaining useful lives. See Note 1, "Nature of Operations and Summary of Significant Accounting Policies," for further information related to our valuation methods.

Other Fair Value Disclosures

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

As of February 2, 2019, our unsecured 5.50% senior notes due in 2019 had a net carrying value of $349.2 million and a fair value of $350.8 million, and our unsecured 6.75% senior notes due in 2021 had a net carrying value of $471.6 million and a fair value of $478.1 million. The fair values of our senior notes were determined based on quoted market prices obtained through an external pricing source which derives its price valuations from daily marketplace transactions, with adjustments to reflect the spreads of benchmark bonds, credit risk and certain other variables. We have determined this to be a Level 2 measurement as all significant inputs into the quote provided by our pricing source are observable in active markets.

6. Receivables, Net

Receivables consisted of the following (in millions):

	February 2, 2019	February 3, 2018
Bankcard receivables	$44.6	$49.2
Vendor and other receivables [(1)]	93.6	97.1
Allowance for doubtful accounts	(4.0)	(7.7)
Total receivables, net	$134.2	$138.6

(1) Vendor receivables primarily relate to vendor allowances.

7. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill, by reportable segment, for fiscal 2017 and 2018 were as follows (in millions):

	United States	Canada	Australia	Europe	Technology Brands	Total
Balance at January 28, 2017—as reported	$ 1,199.7	$28.6	$ 70.1	$74.8	$ 352.0	$1,725.2
Transfers [(1)]	2.4	—	—	—	(352.0)	(349.6)
Balance at January 28, 2017—after transfers	1,202.1	28.6	70.1	74.8	—	1,375.6
Divestitures (Note 2)	(42.6)	—	—	—	—	(42.6)
Foreign currency translation adjustment	—	1.7	3.5	12.3	—	17.5
Balance at February 3, 2018	1,159.5	30.3	73.6	87.1	—	1,350.5
Foreign currency translation adjustment	—	(1.5)	(7.2)	(7.2)	—	(15.9)
Impairment charge	(795.6)	(28.8)	(66.4)	(79.9)	—	(970.7)
Balance at February 2, 2019	$ 363.9	$—	$ —	$—	$ —	$363.9

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) As a result of the divestiture of Spring Mobile, which was completed in January 2019, we allocated the goodwill balance associated with our former Technology Brands segment for the earliest period presented to Spring Mobile, Simply Mac and Cricket Wireless based on their relative fair values. Simply Mac and the historical results of Cricket Wireless are included in the United States segment. We allocated $349.6 million of goodwill to Spring Mobile which was impaired by $32.8 million during fiscal 2017. As of February 3, 2018, goodwill of $316.8 million related to Spring Mobile is included in assets held for sale in our consolidated balance sheets.

We perform an impairment test of goodwill on an annual basis during the fourth quarter or when circumstances indicate that the carrying value of goodwill might be impaired (see Note 1, "Nature of Operations and Summary of Significant Accounting Policies"). During the third quarter of fiscal 2018, we determined that a triggering event occurred as a result of a sustained decline in our market capitalization; therefore, we performed an interim impairment test for all of our reporting units and indefinite-lived intangible assets. As a result of the interim impairment testing, we recognized goodwill impairment charges totaling $557.3 million. During our annual impairment test in the fourth quarter of fiscal 2018, we determined that an additional triggering event occurred upon the announcement that our Board of Directors terminated efforts to pursue a sale of the Company, which resulted in a further decline in our market capitalization, and downward revisions to our forecasted cash flows. As a result of our impairment testing in the fourth quarter of fiscal 2018, we recognized additional goodwill impairment charges of $413.4 million. Goodwill impairment charges in fiscal 2018 totaled $970.7 million.

No goodwill impairment charges related to continuing operations were recognized in fiscal 2017 and 2016. Cumulative goodwill impairment charges were $1,611.2 million as of February 2, 2019, of which $809.1 million, $129.1 million, $173.5 million, and $499.5 million were attributable to our United States, Canada, Australia, and Europe segments, respectively.

Intangible Assets

The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of February 2, 2019 and February 3, 2018 were as follows (in millions):

	February 2, 2019			February 3, 2018		
	Gross Carrying Amount(1)	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Trade names	$8.8	$ —	$ 8.8	$49.3	$ —	$ 49.3
Intangible assets with finite lives:						
Leasehold rights	91.8	(67.3)	24.5	100.4	(67.0)	33.4
Customer relationships	—	—	—	14.5	(6.8)	7.7
Other	32.5	(32.3)	0.2	33.5	(31.4)	2.1
Total	$133.1	$ (99.6)	$ 33.5	$197.7	$ (105.2)	$ 92.5

(1) The change in the gross carrying amount of intangible assets from February 3, 2018 to February 2, 2019 is due to impairments (see Note 4, "Asset Impairments") and the impact of exchange rate fluctuations.

Indefinite-lived Intangible Assets

Indefinite-lived intangible assets are expected to contribute to cash flows indefinitely and, therefore, are not subject to amortization but are subject to annual impairment testing. We test our indefinite-lived intangible assets on an annual basis during the fourth quarter or when circumstances indicate the carrying value might be impaired. We generally perform impairment testing on our indefinite-lived intangible assets in conjunction with the impairment testing on our carrying value of goodwill.

Our trade names consist of Micromania, our video game business in France, which we acquired in 2008; and ThinkGeek, our online and wholesale collectibles retailer, which we acquired in 2015. As a result of impairment tests performed during fiscal 2018, we recognized impairment charges of $31.9 million and $5.3 million related to our Micromania trade name and ThinkGeek trade name, respectively. The impairment charges were primarily the result of increases in discount rate assumptions and downward revisions to our forecasted cash flows, consistent with those utilized in the valuation of our Video Game Brands segments for goodwill impairment testing.

Simply Mac maintains exclusive agreements with Apple to sell their products in Simply Mac branded stores. We previously maintained a dealer agreement intangible asset balance associated with our Simply Mac business, which was fully impaired by $11.0 million during fiscal 2017 to reflect its fair value of zero. The impairment of Simply Mac’s Apple dealer agreements was the result of projected financial performance no longer supporting its carrying value.

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Finite-lived Intangible Assets

Leasehold rights, the majority of which were recorded as a result of the purchase of SFMI Micromania SAS ("Micromania") in 2008, represent the value of rights of tenancy under commercial property leases for properties located in France. Rights pertaining to individual leases can be sold by us to a new tenant or recovered by us from the landlord if the exercise of the automatic right of renewal is refused. Leasehold rights are amortized on a straight-line basis over the expected lease term, not to exceed 20 years, with no residual value.

Customer relationships, which were recorded as a result of the ThinkGeek acquisition, represent the value of the relationships related to both wholesale and website customers within the United States. ThinkGeek sells its products directly to large wholesale retailers and also sells its products directly to customers on its ThinkGeek website. Wholesale customer relationships are amortized on a straight-line basis over seven years, and website customer relationships are amortized on a straight-line basis over five years. As the result of lower-than-expected profitability of our ThinkGeek website and our recent decision to exit the ThinkGeek wholesale business, we fully impaired the remaining carrying value of $5.9 million associated with our customer relationships intangible assets during fiscal 2018.

Other intangible assets include design portfolio and favorable leasehold interests. The design portfolio reflects the collection of product designs and ideas that were created by Geeknet and recorded as a result of the Geeknet acquisition. These designs are amortized on a straight-line basis over three years. Favorable leasehold interests represent the value of the contractual monthly rental payments that are less than the current market rent at stores acquired as part of the Micromania acquisition. Favorable leasehold interests are amortized on a straight-line basis over their remaining lease term with no expected residual value.

As of February 2, 2019, the total weighted-average amortization period for our finite-lived intangible assets was approximately 9.9 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, with no expected residual value.

Intangible asset amortization expense during fiscal 2018, 2017 and 2016 was $10.1 million, $13.4 million and $15.0 million, respectively. The estimated aggregate intangible asset amortization expense for the next five fiscal years is as follows (in millions):

Period	Projected Amortization Expense
Fiscal 2019	$ 5.5
Fiscal 2020	4.5
Fiscal 2021	3.7
Fiscal 2022	3.2
Fiscal 2023	2.6

8. Income Taxes

The provision for income taxes consisted of the following (in millions):

	Fiscal Year		
	2018	2017	2016
Current tax expense:			
Federal	$45.0	$104.7	$122.2
State	12.8	14.2	9.6
Foreign	38.5	28.5	29.2
	96.3	147.4	161.0
Deferred tax (benefit) expense:			
Federal	(36.0)	23.4	(3.1)
State	(4.0)	(1.3)	(0.1)

Foreign	(14.6)	(16.0)	(33.6)
	(54.6)	6.1	(36.8)
Total income tax expense	$41.7	$153.5	$124.2

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of (loss) earnings before income tax expense consisted of the following (in millions):

	Fiscal Year		
	2018	2017	2016
United States	$(543.4)	$310.7	$370.8
International	(209.7)	73.2	57.9
Total	$(753.1)	$383.9	$428.7

The following is a reconciliation of income tax expense (benefit) computed at the U.S. Federal statutory tax rate to income tax expense (benefit) reported in our consolidated statements of operations. Certain prior year rates have been reclassified to conform with current year presentation:

	Fiscal Year		
	2018	2017	2016
Federal statutory tax rate(1)	21.0 %	33.7 %	35.0 %
State income taxes, net of federal effect	(0.9)	3.0	1.4
Foreign income tax rate differential	2.8	(1.1)	(1.1)
Change in valuation allowance	—	(1.1)	4.8
Change in unrecognized tax benefits	0.2	(1.5)	2.7
Transition tax	3.0	2.7	—
Tax reform	—	8.3	—
Realization of losses in foreign operations not previously benefited(2)	—	—	(9.8)
Loss on investment in foreign subsidiary	—	—	(3.8)
Intercompany sale of intangible assets	—	(3.4)	—
Foreign tax credit	0.1	(2.5)	(0.1)
Withholding tax expense	(0.3)	2.3	0.2
Impairment of goodwill	(25.6)	0.1	—
Nondeductible interest	(4.2)	0.5	0.6
Other (including permanent differences)(3)	(1.6)	(1.0)	(0.9)
	(5.5)%	40.0 %	29.0 %

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(1) Per IRC Section 15, we have incorporated a statutory rate of 21.0% for our year end current provision ending February 2, 2019.

(2) In fiscal 2016, we adopted a plan of reorganization specific to certain foreign operations which resulted in our ability to recognize the benefit of foreign net operating loss carryforwards that were previously unrecognized in affected jurisdictions. As a result, we recognized a tax benefit of $42.1 million in the fourth quarter of fiscal 2016, which is subject to a partial valuation allowance of $14.8 million. The valuation allowance established for this tax benefit is reflected in the line item “Change in valuation allowance.”

(3) Other is comprised of numerous items, none of which is greater than 1.05% of loss before income taxes for fiscal 2018, 1.69% of earnings before income taxes for fiscal 2017, and 1.75% of earnings before income taxes for fiscal 2016.

On December 22, 2017, H.R. 1, formerly known as the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), was signed into law. The Tax Act makes broad and complex changes to the Internal Revenue Code, including, but not limited to: (i) reducing the future U.S. federal corporate tax rate from 35 percent to 21 percent; (ii) requiring companies to pay a one-time transition tax on certain unremitted earnings of foreign subsidiaries; and (iii) providing for bonus depreciation that will allow full expensing of certain qualified property.

The Tax Act also established new tax laws that came into effect beginning in 2018, including, but not limited to: (i) the reduction of the U.S. federal corporate tax rate discussed above; (ii) a general elimination of U.S. federal income taxes on dividends from certain foreign subsidiaries; (iii) a new provision designed to tax global intangible low-taxed income ("GILTI"); (iv) the repeal of the domestic production activity deductions; (v) limitations on the deductibility of certain executive compensation; (vi) limitations on the use of certain foreign tax credits to reduce the U.S. income tax liability; and (vii) a new provision that allows a domestic corporation an immediate deduction for a portion of its foreign derived intangible income ("FDII").

GAMESTOP CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Further, the Securities and Exchange Commission staff issued Staff Accounting Bulletin (“SAB”) 118, which provides guidance on accounting for the immediate tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under ASC 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

As of February 2, 2019 we have completed our accounting for the impacts of the Tax Act and as a result there was a net decrease of $22.7 million to the 2017 provisional amounts recorded for the one-time transition tax. Furthermore, changes in net expense related to revaluation of deferred tax assets and liabilities resulting from the new lower corporate tax rate were immaterial.

Under U.S. GAAP we are allowed to make an accounting policy choice to either: (1) treat taxes due on future GILTI inclusions in U.S. taxable income as a current-period expense when incurred (the “period cost method”); or (2) factor in such amounts into our measurement of our deferred taxes (the “deferred method”). After further evaluation in the current year, we have elected to account for GILTI as a period cost in the year the tax is incurred. Accordingly, no GILTI-related deferred amounts were recorded.

Differences between financial accounting principles and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities which are presented in the table below (in millions).

	February 2, 2019	February 3, 2018
Deferred tax asset:		
Inventory	$ 14.7	$ 16.8
Deferred rents	3.9	6.9
Stock-based compensation	1.8	9.2
Net operating losses	78.5	86.2
Customer liabilities		