GameStop Corp.
Form 10-Q
December 11, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 3, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-32637
GameStop Corp.
(Exact name of registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-2733559 (I.R.S. Employer Identification No.)
625 Westport Parkway, Grapevine, Texas (Address of principal executive offices)	76051 (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x
Number of shares of $.001 par value Class A Common Stock outstanding as of December 4, 2018: 101,967,550

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PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
GAMESTOP CORP.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except par value per share)

	November 3, 2018	October 28, 2017	February 3, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	$ 454.5	$ 454.7	$ 864.4
Receivables, net	157.5	195.8	182.7
Merchandise inventories, net	2,027.4	1,822.5	1,366.7
Prepaid expenses and other current assets	157.7	198.0	124.9
Total current assets	2,797.1	2,671.0	2,538.7
Property and equipment:			
Land	18.6	19.2	19.9
Buildings and leasehold improvements	725.9	752.9	769.8
Fixtures and equipment	961.3	986.7	973.5
Total property and equipment	1,705.8	1,758.8	1,763.2
Less accumulated depreciation	1,312.3	1,300.9	1,330.0
Net property and equipment	393.5	457.9	433.2
Deferred income taxes	189.0	73.2	158.2
Goodwill	1,093.9	1,693.2	1,667.3
Other intangible assets, net	124.8	508.0	169.5
Other noncurrent assets	58.4	70.7	74.7
Total noncurrent assets	1,859.6	2,803.0	2,502.9
Total assets	$ 4,656.7	$ 5,474.0	$ 5,041.6
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 1,468.9	$ 1,285.1	$ 902.0
Accrued liabilities	676.5	914.9	976.1
Income taxes payable	47.6	17.5	37.5
Current portion of debt, net	348.8	—	—
Total current liabilities	2,541.8	2,217.5	1,915.6
Deferred income taxes	0.1	22.2	5.0
Long-term debt, net	471.2	817.2	817.9
Other long-term liabilities	78.5	103.4	88.6
Total long-term liabilities	549.8	942.8	911.5
Total liabilities	3,091.6	3,160.3	2,827.1
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Class A common stock — $.001 par value; 300 shares authorized; 102.0, 101.3 and 101.3 shares issued and outstanding	0.1	0.1	0.1
Additional paid-in capital	29.8	12.8	22.1
Accumulated other comprehensive (loss) income	(54.0)	(24.3)	12.2
Retained earnings	1,589.2	2,325.1	2,180.1
Total stockholders' equity	1,565.1	2,313.7	2,214.5
Total liabilities and stockholders' equity	$ 4,656.7	$ 5,474.0	$ 5,041.6

See accompanying condensed notes to unaudited consolidated financial statements.

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

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net sales	$2,084.4	$ 1,988.6	$5,665.1	$ 5,722.1
Cost of sales	1,393.6	1,299.2	3,720.9	3,706.5
Gross profit	690.8	689.4	1,944.2	2,015.6
Selling, general and administrative expenses	566.6	565.1	1,675.0	1,671.0
Depreciation and amortization	30.2	36.7	96.5	112.3
Goodwill impairments	557.3	—	557.3	—
Asset impairments	30.2	—	30.2	—
Operating (loss) earnings	(493.5)	87.6	(414.8)	232.3
Interest income	(1.1)	(0.2)	(2.1)	(0.4)
Interest expense	14.1	14.1	42.7	42.6
(Loss) earnings before income tax expense	(506.5)	73.7	(455.4)	190.1
Income tax (benefit) expense	(17.9)	14.3	29.9	49.5
Net (loss) income	$(488.6)	$ 59.4	$(485.3)	$ 140.6
Dividends per common share	$0.38	$ 0.38	$1.14	$ 1.14
(Loss) earnings per share:				
Basic	$(4.78)	$ 0.59	$(4.76)	$ 1.39
Diluted	$(4.78)	$ 0.59	$(4.76)	$ 1.39
Weighted-average shares outstanding:				
Basic	102.2	101.5	102.0	101.4
Diluted	102.2	101.5	102.0	101.5

See accompanying condensed notes to unaudited consolidated financial statements.

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

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net (loss) income	$(488.6)	$ 59.4	$(485.3)	$ 140.6
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(13.6)	(23.2)	(66.2)	23.0
Total comprehensive (loss) income	$(502.2)	$ 36.2	$(551.5)	$ 163.6

See accompanying condensed notes to unaudited consolidated financial statements.

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

	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
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 income	—	—	—	—	28.2	28.2
Foreign currency translation	—	—	—	(35.2)	—	(35.2)
Dividends declared, $0.38 per common share	—	—	—	—	(38.9)	(38.9)
Stock-based compensation expense	—	—	7.6	—	—	7.6
Settlement of stock-based awards	0.6	—	(4.2)	—	—	(4.2)
Balance at May 5, 2018	101.9	0.1	25.5	(23.0)	2,180.9	2,183.5
Net loss	—	—	—	—	(24.9)	(24.9)
Foreign currency translation	—	—	—	(17.4)	—	(17.4)
Dividends declared, $0.38 per common share	—	—	—	—	(39.0)	(39.0)
Stock-based compensation expense	—	—	2.0	—	—	2.0
Balance at August 4, 2018	101.9	0.1	27.5	(40.4)	2,117.0	2,104.2
Net loss	—	—	—	—	(488.6)	(488.6)
Foreign currency translation	—	—	—	(13.6)	—	(13.6)
Dividends declared, $0.38 per common share	—	—	—	—	(39.2)	(39.2)
Stock-based compensation expense	—	—	3.2	—	—	3.2
Settlement of stock-based awards	0.1	—	(0.9)	—	—	(0.9)
Balance at November 3, 2018	102.0	$ 0.1	$ 29.8	$ (54.0)	$1,589.2	$ 1,565.1

	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at January 28, 2017	101.0	$ 0.1	$ —	$ (47.3)	$2,301.3	$ 2,254.1
Net income	—	—	—	—	59.0	59.0
Foreign currency translation	—	—	—	(8.2)	—	(8.2)
Dividends declared, $0.38 per common share	—	—	—	—	(38.6)	(38.6)
Stock-based compensation expense	—	—	5.9	—	—	5.9
Settlement of stock-based awards	0.3	—	(3.3)	—	—	(3.3)
Balance at April 29, 2017	101.3	0.1	2.6	(55.5)	2,321.7	2,268.9
Net income	—	—	—	—	22.2	22.2
Foreign currency translation	—	—	—	54.4	—	54.4
Dividends declared, $0.38 per common share	—	—	—	—	(39.1)	(39.1)
Stock-based compensation expense	—	—	5.3	—	—	5.3
Balance at July 29, 2017	101.3	0.1	7.9	(1.1)	2,304.8	2,311.7
Net income	—	—	—	—	59.4	59.4
Foreign currency translation	—	—	—	(23.2)	—	(23.2)
Dividends declared, $0.38 per common share	—	—	—	—	(39.1)	(39.1)
Stock-based compensation expense	—	—	5.0	—	—	5.0
Settlement of stock-based awards	—	—	(0.1)	—	—	(0.1)
Balance at October 28, 2017	101.3	$ 0.1	$ 12.8	$ (24.3)	$2,325.1	$ 2,313.7

See accompanying condensed notes to unaudited consolidated financial statements.

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

	39 Weeks Ended November 3, 2018	39 Weeks Ended October 28, 2017
Cash flows from operating activities:		
Net (loss) income	$(485.3)	$ 140.6
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization (including amounts in cost of sales)	97.4	113.2
Goodwill and asset impairments	587.5	—
Stock-based compensation expense	12.8	16.2
Deferred income taxes	(46.5)	(14.2)
Loss on disposal of property and equipment	1.4	3.7
Gain on divestitures	—	(7.3)
Other	37.6	27.6
Changes in operating assets and liabilities:		
Receivables, net	20.5	20.4
Merchandise inventories	(747.7)	(715.4)
Prepaid expenses and other current assets	(20.1)	(13.5)
Prepaid income taxes and income taxes payable	(1.4)	(100.3)
Accounts payable and accrued liabilities	365.2	505.6
Changes in other long-term liabilities	(0.6)	6.3
Net cash flows used in operating activities	(179.2)	(17.1)
Cash flows from investing activities:		
Purchase of property and equipment	(65.9)	(85.6)
Acquisitions, net of cash acquired	—	(8.5)
Proceeds from divestitures	—	54.7
Other	(0.3)	1.4
Net cash flows used in investing activities	(66.2)	(38.0)
Cash flows from financing activities:		
Repayment of acquisition-related debt	(12.2)	(21.8)
Repurchase of common shares	—	(22.0)
Dividends paid	(118.7)	(116.7)
Borrowings from the revolver	154.0	373.0
Repayments of revolver borrowings	(154.0)	(373.0)
Issuance of common stock, net of share repurchases for withholdings taxes	(5.1)	(3.4)
Net cash flows used in financing activities	(136.0)	(163.9)
Exchange rate effect on cash and cash equivalents and restricted cash	(28.4)	7.7
Decrease in cash and cash equivalents and restricted cash	(409.8)	(211.3)
Cash and cash equivalents and restricted cash at beginning of period	879.3	679.7
Cash and cash equivalents and restricted cash at end of period	$469.5	$ 468.4

See accompanying condensed notes to unaudited consolidated financial statements.

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GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The Company

GameStop Corp. (“GameStop,” “we,” “us,” “our,” or the “Company”) is a global family of specialty retail brands that makes th most popular technologies affordable and simple. Within our family of brands, we are the world’s largest omnichannel video game retailer, the largest AT&T® (“AT&T”) authorized retailer, the largest Apple© (“Apple”) certified products reseller, and the owner of www.thinkgeek.com, one of the world’s largest sellers of collectible pop-culture themed products. As of November 3, 2018, GameStop's retail network and family of brands included 7,173 company-operated stores in the United States, Canada, Australia and Europe.

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

On November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business, which we expect to close in the fourth quarter of fiscal 2018. As of November 3, 2018, we did not consider the sale of Spring Mobile to be probable, therefore, the assets and liabilities of Spring Mobile are classified as held for use in our unaudited consolidated balance sheets. See Note 3, "Divestitures," for additional information.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in our opinion, necessary for a fair presentation of the information as of and for the periods presented. These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required under GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our annual report on Form 10-K for the 53 weeks ended February 3, 2018, as filed with the Securities and Exchange Commission on April 2, 2018, (the “2017 Annual Report on Form 10-K”). The preparation of financial statements in conformity with 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. Due to the seasonal nature of our business, the results of operations for the 39 weeks ended November 3, 2018 are not indicative of the results to be expected for the 52 weeks ending February 2, 2019 ("fiscal 2018").

Restricted Cash

Restricted cash of $15.0 million, $13.7 million and $14.9 million as of November 3, 2018, October 28, 2017 and February 3, 2018, respectively, consists primarily of bank deposits serving as collateral for bank guarantees issued on behalf of our foreign subsidiaries and is included in other noncurrent assets in our unaudited condensed consolidated balance sheets.

Dividend

On November 27, 2018, our Board of Directors approved a quarterly cash dividend to our stockholders of $0.38 per share of Class A Common Stock payable on December 21, 2018 to stockholders of record at the close of business on December 11, 2018. Future dividends, if any, will be subject to approval by our Board of Directors.

Adoption of New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("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.
CONDENSED NOTES TO UNAUDITED 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):

	November 3, 2018	October 28, 2017	February 3, 2018
Cash and cash equivalents	$ 454.5	$ 454.7	$ 864.4
Restricted cash (included in prepaid expenses and other current assets)	2.7	—	—
Restricted cash (included in other noncurrent assets)	12.3	13.7	14.9
Total cash and cash equivalents and restricted cash in the statements of cash flows	$ 469.5	$ 468.4	$ 879.3

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 2, “Revenue.”

The impact of the new revenue standard to our statements of operations for the 13 and 39 weeks ended November 3, 2018 is as follows (in millions):

	13 Weeks Ended November 3, 2018			39 Weeks Ended November 3, 2018		
	Under Prior Standard	Impact of New Standard	As Reported	Under Prior Standard	Impact of New Standard	As Reported
Net sales	$2,078.4	$ 6.0	$2,084.4	$5,647.2	$ 17.9	$5,665.1
Cost of sales	1,389.5	4.1	1,393.6	3,706.7	14.2	3,720.9
Gross profit	688.9	1.9	690.8	1,940.5	3.7	1,944.2
Operating (loss) earnings	(495.4)	1.9	(493.5)	(418.5)	3.7	(414.8)
(Loss) earnings before income taxes	(508.4)	1.9	(506.5)	(459.1)	3.7	(455.4)
Income tax (benefit) expense	(18.4)	0.5	(17.9)	29.0	0.9	29.9
Net (loss) income	(490.0)	1.4	(488.6)	(488.1)	2.8	(485.3)

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GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The impact of the new revenue standard to our balance sheet as of November 3, 2018 is as follows (in millions):

	November 3, 2018		
	Under Prior Standard	Impact of New Standard	As Reported
Merchandise inventories, net	$2,022.0	$ 5.4	$2,027.4
Total current assets	2,791.7	5.4	2,797.1
Deferred income taxes	193.6	(4.6)	189.0
Total noncurrent assets	1,864.2	(4.6)	1,859.6
Total assets	4,655.9	0.8	4,656.7
Accrued liabilities	690.8	(14.3)	676.5
Income taxes payable	46.7	0.9	47.6
Total current liabilities	2,555.2	(13.4)	2,541.8
Total liabilities	3,105.0	(13.4)	3,091.6
Retained earnings	1,575.0	14.2	1,589.2
Total stockholders' equity	1,550.9	14.2	1,565.1
Total liabilities and stockholders' equity	4,655.9	0.8	4,656.7

Recently Issued 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 are currently evaluating the overall impact to our consolidated financial statements, though we expect the adoption to result in a material increase in the assets and liabilities reflected in our consolidated balance sheets.

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GAMESTOP CORP.
CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
New video game hardware (1)	$349.0	$ 309.5	$1,006.5	$ 947.8
New video game software	720.7	649.9	1,488.3	1,539.7
Pre-owned and value video game products	396.9	458.5	1,344.7	1,486.5
Video game accessories	180.8	136.4	567.2	456.6
Digital	45.4	37.2	128.6	127.8
Technology Brands (2)	171.1	194.2	509.0	583.9
Collectibles	154.6	138.4	438.7	375.4
Other (3)	65.9	64.5	182.1	204.4
Total	$2,084.4	$ 1,988.6	$5,665.1	$ 5,722.1

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

(2) Includes mobile and consumer electronics sold through our Technology Brands segment, which includes the operations of our Spring Mobile managed AT&T stores, Simply Mac stores and Cricket Wireless branded stores. We sold our Cricket Wireless branded stores in January 2018 and on November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business, which we expect to close in the fourth quarter of fiscal 2018 (see Note 3, "Divestitures").

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

See Note 10, "Segments," 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 certain commissions earned by our Spring Mobile AT&T stores, extended warranties and our Game Informer magazine. Revenues do not include sales taxes or other taxes collected from customers.

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, subscriptions to our Game Informer magazine and Spring Mobile AT&T dealer agreements.

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 November 3, 2018, our unredeemed customer liabilities totaled $293.6 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 November 3, 2018, our deferred revenue liability related to extended warranties totaled $57.7 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 November 3, 2018, we had deferred revenue of $42.5 million associated with our Game Informer magazine.

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Under our Spring Mobile AT&T dealer agreements, we have an ongoing performance obligation to provide service and support to customers of our AT&T-branded stores. We earn commissions for providing this ongoing service and support, which are based on the customer accounts we have activated or acquired (through store acquisitions), and are earned and paid to us on a monthly basis, generally over a three-year period after a customer's activation date. We did not estimate the total revenues expected to be recognized in the future associated with this ongoing performance obligation since we recognize these revenues in accordance with ASC 606-10-55-18.

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]	817.2
Decrease to contract liabilities [2]	(824.6)
Other adjustments [3]	(8.0)
Balance at November 3, 2018	$ 393.8

(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 39 weeks ended November 3, 2018, there were $56.2 million of gift cards redeemed that were outstanding as of February 3, 2018.

(3) Primarily includes foreign currency translation adjustments.

3. Divestitures

In July 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 $7.3 million, net of tax, which is classified in selling, general and administrative expenses in our consolidated statements of operations for the 39 weeks ended October 28, 2017. The disposed net assets of Kongregate primarily consisted of goodwill.

On November 21, 2018, we entered into a definitive agreement (the "Purchase Agreement") to sell our Spring Mobile business to Prime Communications, L.P. The Purchase Agreement provides for a cash purchase price of $700 million, excluding transaction fees and subject to customary working capital and indebtedness adjustments. The transaction is expected to close in the fourth quarter of fiscal 2018, subject to customary closing conditions. On November 30, 2018, we received early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended. As of November 3, 2018, we did not consider the sale of Spring Mobile to be probable, therefore, the assets and liabilities of Spring Mobile are classified as held for use in our unaudited consolidated balance sheets. There can be no assurance that the transaction will be completed on the terms contained in the Purchase Agreement or at all.

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4. 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 measured at fair value on a recurring basis include our foreign currency contracts, life insurance policies we own that have a cash surrender value, and certain nonqualified deferred compensation liabilities.

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.

In August 2016, we acquired certain assets from Cellular World and Red Skye Wireless. The purchase price included two subsequent payments of contingent consideration. We recognized an acquisition-date liability of $43.2 million representing the total estimated fair value of the contingent consideration. The first payment of $20.0 million was contingent on the relocation of certain stores and was paid in August 2017. The second payment was variable based on the sales performance of certain acquired stores during calendar year 2017 and was estimated to be $23.2 million as of the acquisition date. Based on the actual sales performance of these stores, we recognized an $11.0 million adjustment to reduce the contingent liability to $12.2 million during fiscal 2017, which was paid in the first quarter of fiscal 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.

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

	November 3, 2018		October 28, 2017		February 3, 2018	
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3
Assets						
Foreign currency contracts						
Other current assets	$ 4.6	$ —	$1.9	$—	$2.4	$—
Other noncurrent assets	—	—	0.4	—	—	—
Company-owned life insurance(1)	14.4	—	13.0	—	13.9	—
Total assets	$ 19.0	$ —	$15.3	$—	$16.3	$—
Liabilities						
Foreign currency contracts						
Accrued liabilities	$ 0.5	$ —	$3.6	$—	$9.9	$—
Other long-term liabilities	—	—	0.5	—	—	—
Nonqualified deferred compensation(2)	1.1	—	1.1	—	1.2	—
Contingent consideration(2)	—	—	—	17.5	—	12.2
Total liabilities	$ 1.6	$ —	$5.2	$17.5	$11.1	$12.2

(1) Recognized in other non-current assets in our unaudited condensed consolidated balance sheets.
(2) Recognized in accrued liabilities in our unaudited condensed 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. 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. The total gross notional value of derivatives related to our foreign currency contracts was $319.5 million, $419.1 million and $563.3 million as of November 3, 2018, October 28, 2017 and February 3, 2018, respectively.

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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):

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Gains (losses) on the change in fair value of derivative instruments	$0.6	$ (2.5)	$10.0	$ (12.6)
(Losses) gains on the re-measurement of related intercompany loans and foreign currency assets and liabilities	(0.2)	3.3	(7.7)	15.8
Net gains	$0.4	$ 0.8	$2.3	$ 3.2

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 our 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 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.

During the 39 weeks ended November 3, 2018, we recognized impairment charges totaling $30.2 million related to intangible assets. We recognized impairment charges of $19.0 million and $5.3 million associated with our Micromania and ThinkGeek trade names, respectively, to reflect their fair values of $19.0 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. We did not record any impairment charges related to assets measured at fair value on a nonrecurring basis during the 39 weeks ended October 28, 2017.

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 5, "Goodwill and Intangible Assets," 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 November 3, 2018, our unsecured 5.50% senior notes due in 2019 had a net carrying value of $348.8 million and a fair value of $350.6 million, and our unsecured 6.75% senior notes due in 2021 had a net carrying value of $471.2 million and a fair value of $485.5 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.

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5. 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 five operating segments, including Video Game Brands in the United States, Canada, Australia and Europe, and Technology Brands in the United States, which also define our reporting units based upon the similar economic characteristics of operations within each segment, including the nature of products, product distribution and the type of customer and separate management within these businesses.

During the 13 weeks ended November 3, 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 and intangible asset impairment charges totaling $30.2 million.

Goodwill

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

	United States	Canada	Australia	Europe	Technology Brands	Total
Balance at February 3, 2018	$ 1,159.5	$ 30.3	$ 73.6	$ 87.1	$ 316.8	$ 1,667.3
Foreign currency translation adjustment	—	(1.4)	(7.5)	(7.2)	—	(16.1)
Impairment charge	(477.5)	(9.7)	(31.5)	(38.6)	—	(557.3)
Balance at November 3, 2018	$ 682.0	$ 19.2	$ 34.6	$ 41.3	$ 316.8	$ 1,093.9

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. During the 13 weeks ended November 3, 2018, we recognized goodwill impairment charges totaling $557.3 million, all of which related to our Video Game Brands segments. The impairment charges were the result of an increase in the discount rates and a decrease in terminal values utilized in the valuations of our Video Game Brands segments in order to align with market-based assumptions.

As of November 3, 2018, cumulative goodwill impairment charges were $1,230.6 million, of which $491.0 million, $110.0 million, $138.6 million, $458.2 million and $32.8 million were attributable to our United States, Canada, Australia, Europe and Technology Brands segments, respectively.

Intangible Assets

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

	November 3, 2018			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	$21.6	$ —	$ 21.6	$49.3	$ —	$ 49.3
Dealer agreements	77.0	—	77.0	77.0	—	77.0
Intangible assets with finite lives:						

Leasehold rights	91.5	(65.6)	25.9	100.4	(67.0)