



ELECTRONICS BOUTIQUE
HOLDINGS CORP. '03

Annual Report



>>> At Electronics Boutique®, we take games seriously—so seriously that we’ve made selling video games our core focus. And we’ve used that focus to build a serious business. Each of our stores is an ultimate gaming destination—a place to get immediate access to the hottest new game merchandise in a dynamic atmosphere that’s all about gaming. We stock an expansive selection of cutting-edge video game hardware and software, PC entertainment software, and accessories. We hire exceptional sales associates who share our passion for playing games and our commitment to delivering complete customer satisfaction. We feature energetic, game-centered entertainment on our selling floors, and we provide interactive hardware consoles that allow gamers to test-drive new releases. We maintain an exceptional pre-sell program that ensures our customers will be the first to get their hands on high-demand new games, and we offer a pre-owned program that allows them to maximize their gaming dollars. We fulfill the exacting demands of gamers around the globe through more than 1,200 strategically selected locations in 10 countries and an extensive e-commerce site. And we’re pushing ahead to drive our growth, executing an aggressive strategy to expand our reach, build our market share and deliver serious profitability.

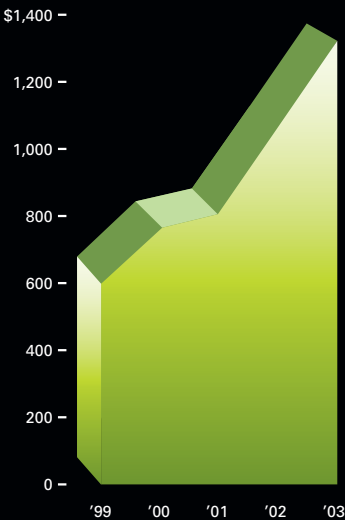


WE TAKE GAMES SERIOUSLY.™

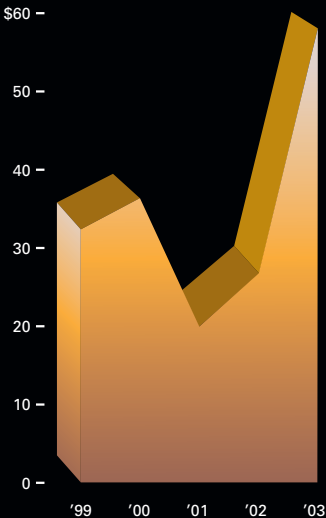
>>> **FINANCIAL HIGHLIGHTS**

	Year Ended				
<i>(Amounts in thousands)</i>	Feb. 1 2003	Feb. 2 2002	Feb. 3 2001	Jan. 29 2000	Jan. 30 1999
Operating Data:					
Stores open at end of period	1145	937	737	619	528
Comparable store sales	8.3%	20.8%	(4.5%)	11.6%	14.1%
Balance Sheet Data:					
Total assets	\$ 521,614	\$ 425,838	\$267,239	\$275,513	\$172,047
Total liabilities	\$ 247,114	\$ 188,678	\$136,019	\$159,026	\$123,205
Stockholders' equity	\$ 274,500	\$ 237,160	\$131,220	\$116,487	\$ 48,842

Total Revenues
(dollars in millions)



Income From Operations
(dollars in millions)



>>> TO OUR SHAREHOLDERS

Any gamer knows that winning is never the result of indiscriminate play. Instead, winning demands focus, stamina and a certain degree of seriousness - one that can only come from a passion for playing and a deep desire to excel. A clear winner in the interactive entertainment market, Electronics Boutique has these qualities and more, including an intense commitment to our industry, a highly disciplined operating strategy, and an unparalleled level of expertise gleaned from more than 25 years in the business.

In fiscal 2003, we leveraged these qualities to strengthen our Company and drive our market share. We streamlined our business, narrowing our focus to the strong market for interactive entertainment merchandise. We introduced EB Games™ as the new masterbrand for all of our stores. We built our high-margin pre-owned software business. We fine-tuned and accelerated our domestic and global expansion programs. And we launched a number of initiatives to market our brand, foster customer loyalty and promote gaming as a dominant form of entertainment.

Our efforts produced outstanding rewards, including record financial performance and steady market share gains for our Company. We delivered record total revenues of \$1,316.8 million for fiscal 2003, an increase of 23.6 percent compared with \$1,065.2 million for the prior fiscal year. Prior to the cumulative effects of a change in accounting principles, we earned net income of \$37.4 million, or \$1.42 per diluted share; after the cumulative effect of the accounting change, we posted net income of \$32.6 million, or \$1.24 per diluted share, compared with net income of \$17.7 million, or \$0.73 per diluted share a year ago. We also boosted our comparable store sales by an impressive 8.3 percent for the fiscal year and we opened a record 270 stores, increasing our global network to 1,145 locations as of February 1, 2003. These store openings helped us to grow our domestic market share, fortify our position as the market leader in both Canada and Australia, and build a solid foundation for our future expansion in Europe.

The fact that we delivered these achievements in the face of heightened competition in the overall retail market reflects several factors, including the strength of the interactive entertainment industry. However, Electronics Boutique's fiscal 2003 performance didn't simply keep pace with overall industry metrics - it outpaced them, showcasing the effectiveness of our business model and the exceptional commitment of our 7,600 employees, who show just how serious we are about delivering complete customer satisfaction.

Mastering the Game

When Electronics Boutique was founded in 1977, video games for home use were simple, one-dimensional diversions. In the past three decades, game technology has evolved dramatically, and today's games are complex interactive experiences that offer realistic game play, 3-D environments, intuitive controls and captivating themes. As a result, playing video games has become a full-fledged form of entertainment that has spawned a dynamic, resilient and highly attractive industry.

Today, the U.S. market is dominated by four major gaming platforms - Sony PlayStation® 2, Microsoft® Xbox™, Nintendo GameCube™ and Game Boy® Advance - which are expected to represent an installed base of nearly 59 million systems by the close of calendar year 2003. The popularity of these systems is prompting publishers to produce a record number of new



<<< **James J. Kim**, *Chairman of the Board*

games, sparking a growth phase for our industry that will be driven primarily by software sales over the next two to three years. In fiscal 2004 alone, we expect as many as 700 new titles to be released. What's more, software margins are higher than hardware margins, and software sales are "anchored" by previous hardware investments - all factors that signal an exciting,

high-margin growth opportunity for Electronics Boutique.

In fiscal 2003, we took several steps that positioned our Company to optimize this opportunity. Our first initiative was to narrow our focus to the interactive entertainment industry, which includes video game hardware and software, PC entertainment software, and gaming accessories. This move, which we announced in February 2002, led us to exit two non-core businesses - BC Sports Collectibles and EB Kids - so that we could concentrate all of our resources on building our market position in video games.

To leverage our exclusive video game focus, we started a comprehensive rebranding process through which we are phasing out 14 separate brands and consolidating all of our operations under a single new name - EB Games - which reflects our complete commitment to the interactive entertainment industry. We initiated the rebranding process by opening most of our new stores under the EB Games name and converting many of our existing stores. We closed the year with approximately one-third of our stores carrying the EB Games name, and we expect to complete the rebranding process by the close of fiscal 2005.

We continued to develop our pre-owned software business, which is a crucial component of our strategy to broaden our customer base and drive margin growth. Our pre-owned program allows customers to trade their previously played games for credit toward exciting new releases. As a result, this program enables us to satisfy the rapid trade-in interests of avid gamers, while creating a lower priced option that helps to attract casual gamers, who tend to be more value conscious. In fiscal 2003, we stepped up our commitment to this business, dedicating more shelf space in our stores to previously played products and using point-of-sale prompts and signage to encourage purchasers of new products to bring back their games for credit. As a result, our sales of pre-owned products more than doubled during the year.

We ramped up our domestic growth program, intensifying our focus on strip and power centers in order to attract new customer groups. Over the years, our well-established network of mall-based stores has enabled Electronics Boutique to attract and satisfy the needs of avid gamers who place a high priority on being the first to own the latest games. As gaming continues to grow, it is attracting a fast-growing audience of casual players. When prices of hardware and software products begin to fall after they have been on the market for awhile, casual gamers become an important source of steady sales growth. Since strip and power center locations place us in communities, they enable us to raise overall awareness of our brand as a leading game destination store, and compete head-to-head with mass merchant chains for a greater share of the casual gamer market. Strip and power center locations also offer the economic benefits of lower start-up costs and expected higher returns on investment over the long term. In fiscal 2003, we paved the way for Electronics



"Electronics Boutique is winning a greater share of the video game market—and our performance proves that we're at the top of our game. As a result, we're driving greater value for our shareholders and new growth opportunities for our vendors and employees."

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

Jeffrey W. Griffiths, *President and CEO* > > >



Boutique to leverage these advantages by developing a highly efficient strip and power center store model to use as the basis for our next phase of domestic expansion, and by using a carefully structured real estate selection process to help us choose the best sites for our growth.

We also intensified our focus on international expansion, which we believe affords us an exceptional opportunity as one of the only global specialty retailers in our industry. Since most vendors don't introduce their products in every international market at the same time, many countries follow a different release schedule than the U.S. market, and the European market is currently trailing its U.S. counterpart by nearly a year. We are working to establish our Company in certain European countries now so that we can maximize our profitability when software sales peak in these countries in the coming years. What's more, by building and maintaining a strong presence in regions of the world that follow a different timetable, we believe that we can help insulate our business against the demand fluctuations that can characterize our industry during transition periods.

Playing to Win

Electronics Boutique faces the future with enthusiasm and confidence because we have what it takes to excel. We are an established market leader in an industry that offers excellent growth potential. We have an exclusive focus on the interactive entertainment industry that allows us to concentrate all of our resources on providing the merchandise, expertise, atmosphere, pre-sell and pre-owned programs that gamers want most, and gives us a significant competitive advantage over mass merchants. We have an extensive retail network, complemented by a powerful e-commerce site that reaches gamers around the globe. We have a proven record of profitability, an experienced management team, a dedicated employee base and a unique corporate culture that breeds success. In addition, we have the invaluable support of our vendors, customers and shareholders - all of whom drove Electronics Boutique's performance in fiscal 2003 and are helping to fuel our continued success today. We'd like to take this opportunity to extend our sincere thanks to all of you for your many significant contributions to our Company.

As we move ahead in fiscal 2004, we're taking games more seriously than ever before, and we're demonstrating it by taking steps to drive our performance. We're stepping up our domestic strip and power center expansion to attract a broader audience. We're intensifying our international growth efforts so that we can penetrate attractive global markets. And we're fueling the growth of our pre-owned program to build customer loyalty, drive profitability and draw a larger, more diverse customer base. In short, we're continuing to exemplify that we take games seriously - and we're continuing to prove that we're playing to win.

Sincerely,

A stylized, handwritten signature in blue ink, belonging to James J. Kim.

James J. Kim
Chairman of the Board

A stylized, handwritten signature in blue ink, belonging to Jeffrey W. Griffiths.

Jeffrey W. Griffiths
President and CEO

AT THE TOP OF OUR GAME

> > >

EB GAMES

Electronics Boutique is in a powerful position. Favorable industry demographics, coupled with the inherent strength of the video game market and an expanding installed hardware base, are expected to spur a greater volume of high-margin software sales over the next few years. We've developed a clear strategy to leverage this opportunity, and we have the right team in place to execute it. Today, we're doing just that, implementing a series of strategic initiatives geared to boost our market share, drive our global expansion, and generate increasing value for our shareholders, customers, vendors and employees.



>>> TAKING THE GAME TO THE NEXT LEVEL

The interactive entertainment market is a vast global industry that caters to more than 62 million gamers and generates nearly \$11.7 billion in annual sales in the U.S. alone. Evidence of the market's strength lies in its outstanding growth statistics in calendar year 2002. Total video game software sales were up 21 percent; total industry sales of software and video game hardware rose to \$9.1 billion, representing a 10 percent increase compared with 2001; and the installed base of current generation hardware consoles surged to 24.1 million in the U.S. alone.

We expect continued growth as technological advancements drive the industry's ongoing evolution. Every four to five years, gaming manufacturers launch a new generation of hardware systems, which enable more sophisticated game play. These launches spark a "hardware cycle" in the industry, and during this period sales are primarily driven by purchases of game consoles. Once demand for hardware reaches a plateau and hardware prices fall, the market transitions to a software-intensive growth phase. This is generally a two to three year period, during which publishers unveil a greater volume of cutting-edge titles that fully leverage the technological capabilities of the current hardware systems.

Historically, these growth patterns have repeated for several cycles, driven by an expanding audience of gamers with each new hardware launch, an ever-increasing consumer appetite for more complex games, and advancements in technology that enable more realistic special effects. Today, the U.S. segment of our industry is on the cusp of what promises to be the strongest software cycle in its history - the "next level" of the game for the current generation of hardware. Since calendar year 2000, four new video game hardware platforms have been launched - PlayStation 2, Xbox, GameCube and Game Boy Advance - and the installed base for these platforms in the U.S. is expected to grow to nearly 59 million units by the close of calendar year 2003. As hardware sales continue, industry experts expect software growth for current generation platforms to rise by almost 25 percent in calendar year 2003 - signaling a significant opportunity for exceptional growth that Electronics Boutique is uniquely positioned to optimize.



Expanding Market

Since its launch in the 1970s, the interactive entertainment industry has experienced incredible growth, as each new generation of hardware systems has attracted an ever-growing audience of children, teenagers and adults. As a result, playing video games is now a major form of entertainment that rivals both TV and movies, and that is enjoyed by an increasingly diverse demographic market of more than 62 million gamers in the U.S. alone, and countless others around the globe.

A man in a suit is sitting on a stool, looking down at a smartphone in his hands. He is smiling slightly. The background is a plain, light-colored wall. The floor is dark and reflective.

Singular Focus

We're at the leading edge of the interactive entertainment industry, and we are one of the only global specialty retailers focused exclusively on this market. We're honing our ability to fulfill the needs of gamers by hiring knowledgeable sales associates, implementing targeted training techniques, and developing specialized in-store programs that give gamers immediate access to newly released software titles. In the process, we're accelerating the growth of our EB Games brand and defining that brand's image as the leading destination for gamers.



>>> DEFINING THE LEADING EDGE

Electronics Boutique excels at serving the needs of avid gamers. One look at our tie ratios of software unit sales to hardware unit sales proves this point, since our numbers significantly exceed the industry averages in every major platform. Why? Because our stores specialize in giving game enthusiasts precisely what they want - immediate access to newly released hardware and software. We do this by maintaining extensive pre-sell lists that help us to pinpoint the level of demand for new hardware and software titles and allow gamers to reserve these products. We also cultivate strong relationships with our vendors that enable us to track industry shifts and help ensure that we have the optimum allocations of the hottest new products. And we leverage our sophisticated logistics and inventory management systems to get our merchandise onto our shelves immediately and to keep our stores fully stocked.

Gamers also appreciate the fact that our stores are run by exceptionally knowledgeable sales associates who are as passionate about games as our customers. Most of our employees are drawn to Electronics Boutique because they are gamers. We help to foster their passion for our business by providing them with specialized training through EB University, as well as by offering them ongoing educational programs that emphasize product knowledge, customer service and relationship building. As a result of our consistent attention to

professional development, our sales team offers something that most of our competitors simply can't match - exceptional guidance on our products, accurate insight into future releases, and a true grasp of what makes a great game.

Atmosphere is also key, and we devote extraordinary attention to making our stores stand out as leading game destinations. We create a gamer-friendly environment in our stores by broadcasting game-related music and programming that exude energy and fit the lifestyles of our customers. We have interactive units of major game platforms set up on our selling floors that encourage customers to test different systems and preview games before they purchase them. We have a popular pre-owned program that we promote with signage throughout our stores, spurring customers to trade in their previously played games for credit to buy hot new games. And, we sell copies of GMR magazine, a new publication that we launched in partnership with Ziff Davis Media Game Group in January 2003. Already a resounding success with subscribers, GMR offers insightful, in-depth reviews of the newest software titles and edgy commentary on game-related topics. GMR subscribers are also automatically enrolled in our EB Edge program, a subscriber loyalty program that provides discounts on pre-owned purchases, encouraging repeat visits to our stores.

>>> PLAYING THE GAME GLOBALLY

One of Electronics Boutique's most crucial competitive advantages is our extensive global store network, which is one of the only specialty retail chains of its kind in the interactive entertainment industry. Built over more than two decades, this network encompasses 1,145 stores as of February 1, 2003, which span the United States, Puerto Rico, Australia, Canada, Denmark, Germany, Italy, New Zealand, Norway, Sweden and South Korea. The exceptional reach and diversification of our store chain is a clear point of differentiation for Electronics Boutique - one that promotes our EB Games brand on a global basis and enables us to compete effectively for market share.

With an eye toward further building our network, Electronics Boutique opened a record 270 new stores in fiscal 2003, which strengthened our foothold in strip and power centers in the U.S. and Canada, increased our already strong presence in Australia, and built a solid platform for our growth in Europe. As always, every location we chose was carefully selected to fortify our competitive position. In the U.S. and Canadian markets, we focused on building our portfolio of strip and power center locations, which offers us an excellent means of attracting new customers and positions us to compete effectively with mass merchant chains for gamer dollars. Since the strip and power center market is somewhat different than the mall market where we have traditionally operated, we developed an efficient and profitable store model exclusively for strip and power center applications. We used this model to open 140 new strip and power center stores in North America in fiscal 2003, and to lay the groundwork to open even more in fiscal 2004. We also tailored our real estate selection

process to focus in on promising strip and power center locations, drawing on the combined strengths of our in-house professionals in Real Estate, Finance, Legal, Store Construction and Store Organization to determine the suitability of each site. This initiative has already helped Electronics Boutique reach new audiences, compete more effectively with mass merchant chains and drive greater profitability.

The global market also holds exciting growth potential. Video game sales trends follow a different calendar in every region of the world, affording significant opportunities for Electronics Boutique in the near term and in the long term. By extending our geographic reach into some of these markets now, we can firmly establish EB Games as the interactive entertainment retailer of choice before these countries reach their peak period of software growth for the current generation. In addition, by building and maintaining a strong presence in regions of the world that follow a different cyclical calendar, we can help to sustain Electronics Boutique's steady progress over the long term. In fiscal 2003, we accelerated this process, opening 20 new stores in Australia and New Zealand, and adding 32 locations in Europe.

We complement our "bricks and mortar" store network with EBgames.com, our leading game-focused e-commerce site that caters to the needs of millions of unique visitors monthly. EBgames.com offers visitors the ability to purchase games online, to locate area stores, and to interact with an extensive online gamer community that has contributed more than 100,000 customer game reviews. An excellent source for game buying information, EBgames.com also publishes an online gaming newsletter that serves more than 500,000 subscribers.



EB Corporate Headquarters
West Chester, PA, USA



Electronics Boutique Worldwide Offices

Brampton, Ontario, Canada

Betzlgau, Germany

Göteborg, Sweden

Las Vegas, NV, USA

Milan, Italy

Pinkenba, Queensland, Australia

Taastrup, Denmark

Youngin-Si, Kyung-Gi-Do, Korea

Global Player

We're a global player with an aggressive international growth plan that will help to diversify our revenue stream and "overlap" our sales cycles for greater stability. The domestic expansion program we are currently executing will help us to maximize the higher margin software cycle that is expected to drive growth in our industry in the U.S. and Canada over the next two to three years, while our global expansion initiatives will enable us to leverage the same software cycle when it unfolds in Europe, Australia and New Zealand.

A black and white photograph of three people in a video game store. They are standing in front of tall shelves filled with video game cases. One person on the right is reaching up to a shelf, while the other two look on. The shelves are labeled 'PlayStation 2'.

Industry Leader

Electronics Boutique is fully energized to drive strong growth in fiscal 2004. Our fiscal 2003 initiatives strengthened our Company and set the stage for us to reinforce our industry leadership status, drive increased profitability, fuel market share gains and generate greater value for our shareholders.

>>> ENERGIZED FOR GROWTH

As the interactive entertainment industry transitions to an exciting new phase of growth, Electronics Boutique is intensely focused on accelerating our success. We are working to fulfill this mission by pursuing three key strategies:

- We are driving market share gains through an **aggressive strip and power center expansion** program in North America. In fiscal 2004, we expect to open approximately 200 new stores in the U.S. alone, choosing locations that will position Electronics Boutique to compete head-to-head with mass merchant chains to attract a wider audience of gamers.
- We are **fueling our international expansion**, with a goal of firmly establishing Electronics Boutique as a leader in key markets outside of the U.S. Our success in this endeavor will help us drive our overall growth and position us to strengthen our status as an industry leader. We intend to open approximately 75 new international stores in fiscal 2004. Coupled with our domestic expansion plans, these new locations will boost the size of our total network to more than 1,400 stores by the close of fiscal 2004.
- We are promoting the ongoing **growth of our pre-owned business** as a means of building customer loyalty, driving profitability, and diversifying our customer base. This important strategic initiative not only appeals to avid gamers, but it also enables Electronics Boutique to attract casual gamers who wish to purchase games at lower prices, who appreciate the fact that they can trade in previously played games for newly released games, and who want to draw on the expert guidance of our sales associates.

"PlayStation" and the "PS" family logo are registered trademarks of Sony Computer Entertainment Inc. The Sony Computer Entertainment logo is a registered trademark of Sony Corporation.
Microsoft, Xbox and the Xbox logo are either registered trademarks or trademarks of Microsoft Corporation in the U.S. and/or other countries.
Nintendo, Nintendo GameCube and the official seal are trademarks of Nintendo.
Sources: International Development Group, Ziff Davis Media Digital Gaming in America 2002 and The NPD Group/NPD Funworld/TRSTS Video Games Service.



'03

- 17 Selected Financial Data
- 19 Management's Discussion and Analysis of
Financial Condition and Results of Operations
- 32 Independent Auditors' Report
- 33 Consolidated Balance Sheets
- 34 Consolidated Statements of Income
- 35 Consolidated Statements of Stockholders' Equity
- 36 Consolidated Statements of Cash Flows
- 37 Notes to Consolidated Financial Statements
- 52 Market for Registrant's Common Equity and
Related Stockholder Matters

>>> SELECTED FINANCIAL DATA

The following table sets forth for the periods indicated selected financial and other data for Electronics Boutique for periods subsequent to its initial public offering on July 28, 1998. Prior periods reflect financial data of Electronics Boutique's predecessors, The Electronics Boutique, Inc. ("EB") and subsidiaries and EB Services Company LLP ("EB Services"). The statement of income data and balance sheet data, which follow, have been derived from Electronics Boutique's consolidated financial statements. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report. The pro forma data, in the opinion of management, includes all adjustments necessary to present fairly the information set forth therein including the matters referred to in Notes 1 and 2 to the consolidated financial statements.

	Year Ended				
<i>(Amounts in thousands, except per share data and operating data)</i>	January 30, 1999	January 29, 2000	February 3, 2001	February 2, 2002	February 1, 2003
Statement of Income Data:					
Net sales	\$595,859	\$758,120	\$802,851	\$1,059,338	\$1,309,226
Management fees	3,405	4,873	4,425	5,889	7,553
Total revenues	599,264	762,993	807,276	1,065,227	1,316,779
Cost of goods sold	457,089	580,770	626,939	826,599	971,204
Gross profit	142,175	182,223	180,337	238,628	345,575
Selling, general and administrative expense	99,972	133,534	144,466	179,464	267,566
Restructuring and asset impairment charge (reversal) (1)	—	—	—	12,638	(2,611)
Depreciation and amortization	9,775	12,278	15,855	19,750	22,524
Income from operations	32,428	36,411	20,016	26,776	58,096
Equity in earnings (loss) of affiliates	(161)	—	—	—	—
Other income	—	—	1,550	—	—
Interest (income) expense, net	289	(1,427)	(3,096)	(1,884)	(1,677)
Income before income tax expense and cumulative effect of change in accounting principle	31,978	37,838	24,662	28,660	59,773
Income tax expense (2)	11,693	15,008	9,791	10,948	22,373
Income before cumulative effect of change in accounting principle	20,285	22,830	14,871	17,712	37,400
Cumulative effect of change in accounting principle, net of tax (3)	—	—	—	—	(4,773)
Net income	\$ 20,285	\$ 22,830	\$ 14,871	\$ 17,712	\$ 32,627
Income per share before cumulative effect of change in accounting principle:					
Basic		\$ 1.11	\$ 0.67	\$ 0.74	\$ 1.44
Diluted		\$ 1.10	\$ 0.66	\$ 0.73	\$ 1.42
Per share cumulative effect of change in accounting principle:					
Basic					\$ (0.18)
Diluted					\$ (0.18)

>>> **SELECTED FINANCIAL DATA** (continued)

(Amounts in thousands, except per share data and operating data)	Year Ended				
	January 30, 1999	January 29, 2000	February 3, 2001	February 2, 2002	February 1, 2003
Net income per share:					
Basic		\$ 1.11	\$ 0.67	\$ 0.74	\$ 1.26
Diluted		\$ 1.10	\$ 0.66	\$ 0.73	\$ 1.24
Weighted average shares outstanding:					
Basic		20,559	22,254	23,868	25,833
Diluted		20,762	22,466	24,230	26,247
Pro forma Income Data: (unaudited)					
Income before income taxes	\$ 31,978				
Pro forma income taxes (4)	11,866				
Pro forma net income (4)	\$ 20,112				
Pro forma net income per share – basic	\$ 1.12				
Pro forma weighted average shares outstanding – basic (5)	18,030				
Pro forma net income per share – diluted	\$ 1.11				
Pro forma weighted average shares outstanding – diluted (5)	18,084				
Operating Data: (6) (unaudited)					
Stores open at end of period	528	619	737	937	1,145
Comparable store sales increase (7)	14.1%	11.6%	(4.5%)	20.8%	8.3%
	As of				
	January 30, 1999	January 29, 2000	February 3, 2001	February 2, 2002	February 1, 2003
Balance Sheet Data:					
Working capital (deficit)	\$ (3,091)	\$ 42,567	\$ 30,133	\$ 121,446	\$ 144,497
Total assets	172,047	275,513	267,239	425,838	521,614
Long-term debt	8	—	—	143	—
Total liabilities	123,205	159,026	136,019	188,678	247,114
Stockholders' equity	48,842	116,487	131,220	237,160	274,500

(1) In fiscal 2002, the restructuring and asset impairment charge of \$12.6 million resulted from our adoption of a plan to close the operations of all 29 EB Kids stores and sell the 22 store BC Sports Collectibles business. The charge represents a \$3.5 million write down of store leasehold improvements, a \$2.3 million write down of store furniture, fixtures and equipment and \$6.7 million in lease termination costs. In fiscal 2003, the \$2.6 million net reversal of the restructuring and asset impairment charge resulted primarily from store lease related accruals that were not necessary due to the terms of the sale of the BC Sports Collectibles business.

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

(3) We changed our accounting policy with respect to the recording of vendor advertising allowances effective retroactively as of the beginning of fiscal 2003. As a result, we recorded a non-cash charge of \$4.8 million, net of income tax, in the first quarter of fiscal 2003 for the cumulative effect of the change in accounting principle on fiscal years prior to fiscal 2003. Prior to this change, we recognized all vendor advertising allowances as an offset to selling, general and administrative expenses. Vendor advertising allowances in excess of advertising expense of \$40.9 million, \$35.8 million, \$24.2 million and \$27.4 million were reflected as an offset to selling, general and administrative expense in fiscal 2002, fiscal 2001, fiscal 2000 and fiscal 1999, respectively.

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

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

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

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

>>> MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We believe that we are among the world's largest specialty retailers of video game hardware and software, PC entertainment software and related accessories and products. As of February 1, 2003, we operated a total of 1,145 stores in 46 states, Australia, Canada, Denmark, Germany, Italy, New Zealand, Norway, Puerto Rico, South Korea and Sweden—primarily under the names Electronics Boutique and EB Games. In addition, we operated a commercial website under the URL address of *ebgames.com*. As of such date, we also provided management services for Game Group, which operated over 400 stores and department store-based concessions in the United Kingdom, Spain, France, Sweden and Ireland. We are a holding company and do not have any significant assets or liabilities, other than all of the outstanding capital stock of our subsidiaries.

Our fiscal year ends on the Saturday nearest January 31. Accordingly the financial statements for the years ended February 2, 2002 ("fiscal 2002") and February 1, 2003 ("fiscal 2003") each include 52 weeks of operations and the year ending February 3, 2001 ("fiscal 2001") includes 53 weeks of operations.

Change in Accounting Principle

In November 2002, the Emerging Issues Task Force ("EITF") reached consensus on Issue 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor. Issue 02-16 addresses the accounting for cash consideration received from a vendor by a reseller for various vendor funded allowances, including cooperative advertising support. Issue 02-16 is effective for new arrangements or modifications to existing arrangements entered into after December 31, 2002, although early adoption is permitted. We elected to adopt early, effective February 3, 2002, the provisions of Issue 02-16 in the preparation of this Annual Report. Accordingly, in fiscal 2003, we recorded a cumulative effect of accounting change of \$7.6 million, \$4.8 million net of income tax, for the impact of this adoption on prior fiscal years. As of February 1, 2003, \$10.0 million of our vendor advertising allowances has been recorded as a reduction of inventory and will be recognized in cost of goods sold as inventory is sold. This adoption has also resulted in the reclassification of \$45.3 million of vendor advertising reimbursements earned in fiscal 2003 from selling, general, and administrative expense. The fiscal 2003 impact on income before cumulative effect of change in accounting principle was a charge of \$1.5 million, or \$0.06 per diluted share.

In accordance with the provisions of Issue 02-16, vendor advertising allowances which exceed specific, incremental and identifiable costs incurred in relation to the advertising and promotional events we conduct for our vendors are to be classified as a reduction in the purchase price of merchandise and recognized in income as the merchandise is sold. The amount of vendor allowances to be recorded as a reduction of inventory was determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. We then applied this ratio to the value of inventory in determining the amount of the vendor reimbursements to be recorded as a reduction to inventory reflected on the balance sheet. This methodology resulted in a \$7.6 million reduction in inventory as of February 3, 2002, the date of adoption of Issue 02-16. The \$7.6 million, \$4.8 million net of tax, is recorded as a cumulative effect of accounting change in fiscal year 2003. As of February 1, 2003, the methodology resulted in \$10.0 million recorded as a reduction of inventory.

>>> **MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS** (continued)

The following table reflects the vendor allowances received and how they were classified in the financial statements (actual and pro forma for the change in accounting) for fiscal 2001, fiscal 2002 and fiscal 2003:

<i>(Amounts in thousands)</i>	Fiscal 2001	Fiscal 2002	Fiscal 2003
Actual			
Total vendor allowances	\$ 45,830	\$ 49,102	\$ 54,116
Gross profit	\$180,337	\$238,628	\$345,575
Percent to total revenues	22.3%	22.4%	26.2%
Amount classified as reduction in cost of goods sold	—	—	\$ 42,925
Percent to total revenues	—	—	3.3%
Amount classified as reduction in selling, general & administrative	\$ 45,830	\$ 49,102	\$ 8,829
Percent to total revenues	5.7%	4.6%	0.7%
Amount classified as a reduction in merchandise inventory			\$ 9,989
Pro forma			
Gross profit	\$218,544	\$280,722	
Percent to total revenues	27.1%	26.4%	
Amount classified as reduction in cost of goods sold	\$ 38,207	\$ 42,094	
Percent to total revenues	4.7%	3.9%	
Amount classified as reduction in selling, general & administrative	\$ 6,729	\$ 6,192	
Percent to total revenues	0.8%	0.6%	
Amount classified as a reduction in merchandise inventory	\$ 6,812	\$ 7,628	

Prior to adoption of Issue 02-16, all vendor advertising allowances were recognized as an offset to selling, general and administrative expenses. These allowances exceeded the specific, incremental costs of the advertising and promotional events conducted by us. The portion of the allowances in excess of the specific, incremental costs was recorded as an offset to other operating expenses within selling, general and administrative expenses. These other operating expenses, which were incurred to support advertising and promotional expenses, included such items as: marketing and merchandise department expenses to develop, promote and manage the events; direct store and store supervisory payroll expenses to implement, manage and monitor the events; distribution expenses associated with receiving and shipping of materials necessary for the events; and corporate expenses related to the design, production and maintenance of Internet advertising events.

The following pro forma financial information for fiscal 2001 and fiscal 2002 reflects the impact of Issue 02-16 as if it had been adopted prior to fiscal 2001:

Consolidated Statements of Income

<i>(Amounts in thousands, except per share amounts)</i>	As Reported Fiscal 2001 (1)	Pro Forma Fiscal 2001	As Reported Fiscal 2002 (1)	Pro Forma Fiscal 2002
Net sales	\$802,851	\$802,851	\$1,059,338	\$1,059,338
Management fees	4,425	4,425	5,889	5,889
Total revenues	807,276	807,276	1,065,227	1,065,227
Cost of goods sold	626,939	588,732	826,599	784,505
Gross profit	180,337	218,544	238,628	280,722
Costs and expenses:				
Selling, general and administrative expenses	144,466	183,567	179,464	222,374
Restructuring and asset impairment charge	—	—	12,638	12,638
Depreciation and amortization	15,855	15,855	19,750	19,750

(continued)

Consolidated Statements of Income *(continued)*

<i>(Amounts in thousands, except per share amounts)</i>	As Reported Fiscal 2001 (1)	Pro Forma Fiscal 2001	As Reported Fiscal 2002 (1)	Pro Forma Fiscal 2002
Operating income	\$ 20,016	\$ 19,122	\$ 26,776	\$ 25,960
Other income	1,550	1,550	—	—
Interest income, net	3,096	3,096	1,884	1,884
Income before income taxes	24,662	23,768	28,660	27,844
Income tax expense	9,791	9,436	10,948	10,636
Net income	\$ 14,871	\$ 14,332	\$ 17,712	\$ 17,208
Earnings per share:				
Basic	\$ 0.67	\$ 0.64	\$ 0.74	\$ 0.72
Diluted	\$ 0.66	\$ 0.64	\$ 0.73	\$ 0.71
Weighted average shares outstanding:				
Basic	22,254	22,254	23,868	23,868
Diluted	22,466	22,466	24,230	24,230
Selected Balance Sheet information:				
Merchandise inventories	100,185	93,373	149,792	142,164
Stockholders' equity	131,220	127,112	237,160	232,387

(1) Effective in the second quarter of fiscal 2003, Electronics Boutique changed the income statement classification for pre-owned merchandise trade-in activity to be consistent with industry practice. Previously, we recorded a reduction to both revenue and cost of goods sold for the cost of the pre-owned merchandise accepted for trade. The reclassification of these transactions increased both revenues and cost of goods sold by \$36.5 million and \$50.1 million in fiscal years 2001 and 2002, respectively. There was no impact on operating income or net income for any period as a result of this reclassification.

Results of Operations

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

	Year Ended		
	February 3, 2001	February 2, 2002	February 1, 2003
Net sales	99.5%	99.4%	99.4%
Management fees	0.5	0.6	0.6
Total revenues	100.0	100.0	100.0
Cost of goods sold	77.7	77.6	73.8
Gross profit	22.3	22.4	26.2
Selling, general and administrative expense	17.9	16.8	20.3
Restructuring and asset impairment charge (reversal)	—	1.2	(.2)
Depreciation and amortization	2.0	1.9	1.7
Income from operations	2.4	2.5	4.4
Other income	0.2	—	—
Interest income, net	0.4	0.2	0.1
Income before income tax expense and cumulative effect of change in accounting principle	3.0	2.7	4.5
Income tax expense	1.2	1.0	1.7
Income before cumulative effect of change in accounting principle	1.8	1.7	2.8
Cumulative effect of change in accounting principle, net of tax	—	—	(0.3)
Net Income	1.8%	1.7%	2.5%

>>> **MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS** (continued)

Fiscal 2003 Compared to Fiscal 2002

Net sales increased by 23.6% from \$1,059.3 million in fiscal 2002 to \$1,309.2 million in fiscal 2003. The increase in net sales was primarily attributable to the additional sales volume from 270 new stores, approximately \$102.0 million, opened during fiscal 2003 and a comparable store sales increase of 8.3%, or \$84.8 million. The increase was driven by continuing strong sales of Sony's PlayStation 2 software, as well as a full year of sales from Nintendo's GameCube and Microsoft's Xbox which were introduced in November 2001, and Nintendo's Game Boy Advance which was introduced in June 2001.

Management fees increased 28.3% from \$5.9 million in fiscal 2002 to \$7.6 million in fiscal 2003. The increase in management fees earned in fiscal 2003 was primarily due to an increase in Game Group's sales along with a more favorable currency exchange rate between the British pound and U.S. dollar in fiscal 2003. In addition we earned \$150,000 in management fees from Sports Collectibles Acquisition Corporation ("SCAC") in fiscal 2003.

Cost of goods sold increased by 17.5% from \$826.6 million in fiscal 2002 to \$971.2 million in fiscal 2003. As a percentage of net sales, cost of goods sold decreased from 78.0% in fiscal 2002 to 74.2% in fiscal 2003. This decrease in cost of goods sold, as a percentage of net sales, was partially due to a reclassification of \$42.9 million, or 3.3% of net sales, of fiscal 2003 vendor advertising allowances from selling, general and administrative expense in connection with our change in accounting policy. The balance of the decrease was primarily attributable to the shift in sales from low margin hardware to higher margin software of 0.7% and reduced freight costs of 0.3%. These improvements were partially offset by a decrease in sales of higher margin PC product accounting for 0.3%. Cost of goods sold does not include purchasing and distribution center operating costs of approximately \$15.3 million in fiscal 2003 and \$13.9 million in fiscal 2002, which are included in selling, general and administrative costs. Accordingly, our cost of goods sold may not be comparable to the cost of goods sold of other retailers.

Selling, general and administrative expense increased 49.1% from \$179.5 million in fiscal 2002 to \$267.6 million in fiscal 2003. Of the \$88.1 million increase, \$45.3 million, or 3.4% of total revenues, was attributable to the reclassification of vendor advertising allowances in connection with our change in accounting policy. The remaining \$42.8 million of the increase was due to the increase in our domestic and international stores base and the associated increases in store expenses of \$35.5 million and headquarter expenses of \$7.9 million, which was partially offset by an increase in net promotional and marketing reimbursements of \$1.3 million prior to the reclassification. As a percentage of total revenues, selling, general and administrative expense increased from 16.8% in fiscal 2002 to 20.3% in fiscal 2003.

Depreciation and amortization expense increased by 14.0%, from \$19.8 million in fiscal 2002 to \$22.5 million in fiscal 2003. The increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings, remodeling of existing stores, and capital improvements, furniture and fixtures and computer software at corporate headquarters.

In fiscal 2002, the restructuring and asset impairment charge of \$12.6 million resulted from our adoption of a plan to close the operations of all 29 EB Kids stores and sell the 22 store BC Sports Collectibles business. The charge represents a \$3.5 million write down of store leasehold improvements, a \$2.3 million write down of store furniture, fixtures and equipment and \$6.7 million in lease termination costs. In fiscal 2003, the \$2.6 million net reversal of the restructuring and asset impairment charge resulted primarily from store lease related accruals that were not necessary due to the terms of the sale of the BC Sports Collectibles business.

Operating income increased by 117.0%, from \$26.8 million in fiscal 2002 to \$58.1 million in fiscal 2003. As a percentage of total revenues, operating income increased from 2.5% in fiscal 2002 to 4.4% in fiscal 2003. Excluding the \$2.3 million charge to cost of goods sold and the \$12.6 million restructuring and asset impairment charge in fiscal

2002, operating income would have been \$41.7 million, or 3.9% of total revenues in fiscal 2002. Excluding the \$2.6 million reversal of the restructuring and asset impairment charge in fiscal 2003, operating income would have been \$55.5 million, or 4.2% of total revenues in fiscal 2003.

Interest income, net, decreased by 11.0%, from \$1.9 million in fiscal 2002 to \$1.7 million in fiscal 2003. The decrease was due to lower interest rates on short-term investments.

Income tax expense increased by 104.4%, from \$10.9 million in fiscal 2002 to \$22.4 million in fiscal 2003. As a percentage of pre-tax income, income tax expense decreased from 38.2% in fiscal 2002 to 37.4% in fiscal 2003. Our effective tax rate decreased from the prior year principally as a result of an increase in operations in foreign jurisdictions that have a lower tax rate than the United States and an increase in tax-exempt interest income.

We changed our accounting policy with respect to the recording of vendor advertising allowances effective retroactively as of the beginning of fiscal 2003. As a result, we recorded a non-cash charge of \$4.8 million, net of income tax, in the first quarter of fiscal 2003 for the cumulative effect of the change on fiscal years prior to fiscal 2003.

Fiscal 2002 Compared to Fiscal 2001

Net sales increased by 31.9%, from \$802.9 million in fiscal 2001 to \$1,059.3 million in fiscal 2002. Fiscal 2001 included 53 weeks of net sales compared to 52 weeks in fiscal 2002 partially offsetting the increase. The increase in net sales was primarily attributable to the additional sales volume from 210 new stores, approximately \$81.0 million, opened during fiscal 2002 and a comparable store sales increase of 20.8%, or \$152.4 million. The increase was driven by continuing strong sales of Sony's PlayStation 2 hardware and related software, as well as the introduction of Nintendo's Game Boy Advance in June 2001 and GameCube in November 2001, and Microsoft's Xbox in November 2001.

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

Cost of goods sold increased by 31.8%, from \$626.9 million in fiscal 2001 to \$826.6 million in fiscal 2002. As a percentage of net sales, cost of goods sold decreased from 78.1% in fiscal 2001 to 78.0% in fiscal 2002. The decrease in cost of goods sold, as a percentage of net sales, was primarily attributable to several factors such as increased margins on PC products and a successful tiered pricing strategy of approximately 1.1%, reduced freight costs of approximately 0.5% and an increase in high margin pre-owned sales of approximately 0.3%. These improvements were partially offset by the increased sales of low margin hardware sales of approximately 1.6% and the \$2.3 million or 0.2% charge related to the write-down of inventory associated with our decision to discontinue our EB Kids operations and sell our BC Sports Collectibles business. Cost of goods sold does not include purchasing and distribution center operating costs of approximately \$13.9 million in fiscal 2002 and \$12.9 million in fiscal 2001, which are included in our selling, general and administrative costs. Accordingly, our cost of goods sold may not be comparable to the cost of goods sold of other retailers.

Selling, general and administrative expense increased 24.2%, from \$144.5 million in fiscal 2001 to \$179.5 million in fiscal 2002. The \$35.0 million increase was primarily attributable to the increase in our domestic and international stores base and the associated increases in store expenses of \$31.9 million, headquarter expenses of \$7.4 million and distribution expenses of \$0.8 million, which was partially offset by an increase in promotional and marketing reimbursements of \$5.1 million. As a percentage of total revenues, selling, general and administrative expense decreased from 17.9% in fiscal 2001 to 16.8% in fiscal 2002. The decrease in selling, general, and administrative expense as a percentage of total revenues was primarily attributable to the increase in comparable store sales.

>>> **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** (continued)

Depreciation and amortization expense increased by 24.6%, from \$15.9 million in fiscal 2001 to \$19.8 million in fiscal 2002. The increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings, remodeling of existing stores, and capital improvements, furniture and fixtures and computer software at the corporate headquarters. In addition, in fiscal 2002 we had a full year of depreciation, or an increase of \$670,000 over the prior year, on capital expenditures we made in fiscal 2001 for the purchases of our corporate headquarters and distribution facility in West Chester, Pennsylvania, the relocation to a larger distribution facility in Louisville, Kentucky, and the construction of new distribution and office facilities in Australia and Canada.

The restructuring and asset impairment charge of \$12.6 million resulted from our adoption of a plan to close the operations of all 29 EB Kids stores and sell the 22 store BC Sports Collectibles business. The charge represents a \$3.5 million write down of store leasehold improvements, a \$2.3 million write down of store furniture, fixtures and equipment and \$6.7 million in lease termination costs.

Operating income increased by 33.8%, from \$20.0 million in fiscal 2001 to \$26.8 million in fiscal 2002. As a percentage of total revenues, operating income increased from 2.4% in fiscal 2001 to 2.5% in 2002. Excluding the \$2.3 million charge to cost of goods sold and the \$12.6 million restructuring and asset impairment charge, operating income for fiscal 2002 would have been \$41.7 million, or 3.9% of total revenues.

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

Interest income, net, decreased by 39.2%, from \$3.1 million in fiscal 2001 to \$1.9 million in fiscal 2002. The decrease was due to lower interest rates on short-term investments.

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

Seasonality and Quarterly Results

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

The following table sets forth certain unaudited quarterly income statement information for fiscal 2002 and fiscal 2003. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

Fiscal 2003 (Restated) (1)				
<i>(Amounts in thousands, except for earnings per share and number of stores)</i>	1st Quarter (2)	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	\$237,640	\$262,635	\$282,960	\$533,544
Gross profit	63,044	66,174	75,129	141,228
Operating income	1,918	549	5,682	49,947
Income before cumulative effect of change in accounting principle	1,471	594	3,742	31,593
Net income (loss)	(3,302)	594	3,742	31,593
Income per share before cumulative effect of change in accounting principle:				
– Basic	0.06	0.02	0.14	1.22
– Diluted	0.06	0.02	0.14	1.21
Net income (loss) per share:				
– Basic	(0.13)	0.02	0.14	1.22
– Diluted	(0.13)	0.02	0.14	1.21
Stores open at quarter end	948	994	1,078	1,145
Fiscal 2003 (As Reported) (3)				
	1st Quarter (2)	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	\$237,640	\$262,635	\$282,960	\$533,544
Gross profit	56,800	60,144	66,055	120,286
Operating income	553	714	11,186	48,004
Net income	627	696	7,144	30,410
Net income per share				
– Basic	0.02	0.03	0.28	1.18
– Diluted	0.02	0.03	0.27	1.16
Stores open at quarter end	948	994	1,078	1,145
Fiscal 2002 (As Reported)				
	1st Quarter (2)	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	\$189,657	\$189,907	\$182,153	\$503,510
Gross profit	41,734	45,938	46,762	104,194
Operating income (loss)	(2,842)	(2,704)	4,289	28,033
Net income (loss)	(1,418)	(1,532)	2,920	17,742
Net income (loss) per share				
– Basic	(0.06)	(0.07)	0.12	0.69
– Diluted	(0.06)	(0.07)	0.11	0.67
Stores open at quarter end	763	813	878	937

(1) We changed our accounting policy with respect to the recording of vendor advertising allowances effective retroactively as of the beginning of fiscal 2003. As a result, we recorded a non-cash charge of \$7.6 million, \$4.8 million net of income tax, in the first quarter of fiscal 2003 for the cumulative effect of the change on fiscal years prior to fiscal 2003. Quarterly results for fiscal 2003 have been restated to reflect this new accounting policy. See Note 2 to the consolidated financial statements for more details on this change in accounting principle.

>>> MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(2) Effective in the second quarter of fiscal 2003, Electronics Boutique changed the income statement classification for pre-owned merchandise trade-in activity to be consistent with industry practice. Previously, we recorded a reduction to both revenue and cost of goods sold for the cost of the pre-owned merchandise accepted for trade. The reclassification of these transactions increased both revenues and cost of goods sold by \$9.8 million and \$20.0 million in the first quarters of fiscal 2002 and fiscal 2003, respectively. There was no impact on operating income or net income as a result of this reclassification.

(3) Table represents results of operations prior to adoption of EITF Issue 02-16, "Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor."

The \$1.9 million of operating income in the first quarter of fiscal 2003 includes a \$508,000 pre-tax restructuring reversal (\$314,000 after-tax, or \$0.01 per diluted share). This reversal related primarily to reversals of lease related accruals for the EB Kids stores. The \$5.7 million of operating income in the third quarter of fiscal 2003 includes a \$2.2 million pre-tax restructuring reversal (\$1.4 million after-tax, or \$0.05 per diluted share). This reversal related to store lease accruals that were not necessary due to the terms of the sale of the BC Sports Collectibles business.

The \$28.0 million of operating income in the fourth quarter of fiscal 2002 includes a \$14.9 million pre-tax charge (\$9.2 million after-tax, or \$0.35 per diluted share) related to costs associated with our decision to close our EB Kids operations and sell our BC Sports Collectibles business. The pre-tax charge was recorded as follows: \$2.3 million related to a write-down of inventory within cost of goods sold and \$12.6 million as a restructuring and asset impairment charge.

Liquidity and Capital Resources

We have historically financed operations through a combination of cash generated from operations, equity offerings and bank debt. On August 14, 2001, we completed a public offering of 4,600,000 shares of common stock. Of the 4,600,000 shares sold, 2,500,000 shares were for the account of the Electronics Boutique and 2,100,000 shares were for the account of EB Nevada Inc., a selling shareholder controlled by the Kim family. The transaction resulted in net proceeds (after offering expenses) to us of approximately \$68.2 million.

We generated \$27.1 million in cash from operations in fiscal 2003 and \$31.4 million in fiscal 2002. The \$27.1 million of cash generated from operations in fiscal 2003 was primarily the result of \$32.6 million in net income, \$23.9 million in non-cash charges to net income, an increase of \$8.2 million in accrued expenses and a \$6.1 million increase in income taxes payable, partially offset by a \$38.5 million increase in merchandise inventory, net of accounts payable, a \$2.1 million increase in accounts receivable, a \$1.6 million increase in prepaid expenses, and a \$1.6 increase in other long-term assets. In fiscal 2003, the \$38.5 million increase in inventory, net of accounts payable, was due to an increased store base coupled with slower than expected holiday sales. The \$8.2 million increase in accrued expenses was primarily due to an increased store base and an increase in customer liabilities. The \$31.4 million of cash generated from operations in fiscal 2002 was primarily the result of \$17.7 million of net income, \$10.2 million of non-cash charges to net income, a \$32.8 million increase in accounts payable, an increase of \$10.2 million in accrued expenses and deferred rent, and a \$14.1 million increase in taxes payable, partially offset by a \$3.6 million increase in accounts receivable, a \$47.0 million increase in merchandise inventories, a \$2.3 million increase in prepaid expenses, and a \$0.7 million increase in other long-term assets. In fiscal 2002, merchandise inventories and related accounts payable increased primarily due to the higher average cost of products associated with the new console systems introduced in the year and also due to a 27% increase in our store base over the prior year.

We made capital expenditures of \$35.8 million in fiscal 2003, primarily to open new stores, to remodel existing stores, to rebrand 96 existing stores to the new EB Games name, and to enhance the inventory system in the Louisville distribution center. In fiscal 2003, we also made investments of \$1.6 million to acquire additional interests in our European subsidiaries and to acquire a five store retail chain in the U.S. We made capital expenditures of \$23.7 million in fiscal 2002, primarily to open new stores, to remodel existing stores, to purchase and install a new

inventory system in the Louisville distribution center and to renovate and expand the Pennsylvania corporate headquarters. In fiscal 2002, we also made investments of \$9.2 million to acquire various assets and businesses in several European countries including 32 retail stores, distribution centers, and mail order and Internet businesses.

We have a \$50 million asset based revolving credit facility with Fleet Capital Corp. The revolving credit facility has been renewed for a one-year term expiring on March 16, 2004. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis points or Fleet's base rate of interest, at our option. The revolving credit facility is secured by certain assets, including accounts receivable, inventory, fixtures and equipment. As of February 1, 2003, we had no outstanding borrowings under the revolving credit facility.

Letters of credit outstanding with various financial institutions were \$1.8 million and \$694,000 at February 2, 2002 and February 1, 2003, respectively.

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

Related Party Transactions

Transactions with Affiliates

In fiscal 1996, The Electronics Boutique, Inc. entered into a services agreement with Game Group (formerly The Electronics Boutique Plc) to provide consulting, management, training, and advertising assistance, which expires in January 2006. The agreement was assigned to EB Services Company. The agreement prohibits us from competing in the United Kingdom during the term of the agreement, and for one year after its termination. Game Group is responsible for the payment of fees, payable, at our option, in cash or Game Group stock, equal to 1.0% of Game Group's adjusted sales, plus a bonus calculated on the basis of net income in excess of a pre-established target set by Game Group. The management fee receivable at February 2, 2002 was \$573,000 and at February 1, 2003 was \$605,000; both were included in accounts receivable-trade and vendors. Management fees received from Game Group for fiscal 2001, fiscal 2002 and fiscal 2003 were \$4.4 million, \$6.0 million and \$7.4 million, respectively. Additionally, the agreement provides that EB Services is to be reimbursed by Game Group for all reasonable travel and subsistence expenses incurred during performance of the agreement. At February 2, 2002 and February 1, 2003, there were no outstanding balances due from Game Group.

On November 2, 2002, we sold our BC Sports Collectibles business to SCAC for \$2.2 million in cash and the assumption of lease related liabilities in excess of \$13 million. The purchaser, SCAC, is owned by the family of James Kim, our Chairman. The transaction included the sale of all assets of the business including inventory, intellectual property and furniture, fixtures and equipment, and transitional services which were provided by us to SCAC for a six-month period after the closing for an additional \$300,000. As of February 1, 2003, \$150,000 of the services agreement has been earned and recognized as income. The transaction was negotiated and approved by a committee of our Board of Directors comprised solely of independent directors with the assistance of an investment banking firm engaged to solicit offers for the BC Sports Collectibles business.

Recent Accounting Pronouncements

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

>>> **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** (continued)

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on our Consolidated Financial Statements. The disclosure requirements of this interpretation were effective on December 31, 2002. The disclosure requirements have been adopted and are included in Note 1 to the consolidated financial statements, "Guarantees."

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation." This statement amends FASB Statement No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. We adopted the disclosure requirement in this Form 10-K.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" which addresses consolidation by businesses of variable interest entities. We do not anticipate any impact from this interpretation.

Critical Accounting Policies and Estimates

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

Inventory Valuation

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

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

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

Reserves of \$2.7 million and \$2.9 million were recorded against inventory as of February 2, 2002 and February 1, 2003, respectively. Management believes its inventory valuation system results in carrying inventory at the lower of cost or market.

Revenue Recognition and Related Policies

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

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

We also engage in the sale and trading of pre-owned video game products. Effective in the second quarter of fiscal 2003, Electronics Boutique changed the income statement classification for pre-owned merchandise trade-in activity to be consistent with industry practice. Previously, we recorded a reduction to both revenue and cost of goods sold for the cost of the pre-owned merchandise accepted for trade. The reclassification of these transactions increased both revenues and cost of goods sold by \$36.5 million for the fifty-three week period ended February 3, 2001 and \$50.1 million for the fifty-two week period ended February 2, 2002. There was no impact on operating income or net income for any period as a result of this reclassification.

Revenues for management services are recorded as earned. In fiscal 2003, all management fees earned were derived under service agreements with Game Group and SCAC.

Restructuring Costs

In February 2002, we announced our plan to close all of our 29 EB Kids stores and sell our 22 store BC Sports Collectibles business. In fiscal 2002, we recorded a restructuring and asset impairment charge of \$12.6 million. The charge represents a \$3.5 million write down of store leasehold improvements, a \$2.3 million write down of store furniture, fixtures and equipment and \$6.7 million in lease termination costs. In fiscal 2003, a \$2.6 million net reversal of the restructuring and asset impairment charge resulted primarily from store lease related accruals that were not necessary due to the terms of the sale of the BC Sports Collectibles business.

Effective as of the close of business on November 2, 2002, we closed on the sale transaction of the BC Sports Collectibles business to SCAC for \$2.2 million in cash and the assumption of the lease related liabilities for each of its 22 stores. The family of James Kim, who is Chairman of Electronics Boutique and a significant investor in our outstanding common stock, owns SCAC. The transaction included the sale of all assets of the business including inventory, intellectual property and furniture, fixtures and equipment, and transitional services which were provided to SCAC for a six-month period after the closing for an additional \$300,000. Subsequent to year end, all of the store leases have been assigned to SCAC. We remain contingently liable for these leases and Mr. Kim has entered into an Indemnification Agreement with us for these leases. The purchase agreement provides SCAC the right, exercisable at any time after the second anniversary of the closing date, to assign back to us two of the store leases. We have retained an accrual of \$204,000 for the estimated lease termination costs related to this option. These actual costs could be higher than this amount.

>>> MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Income Taxes

We are subject to income tax in many jurisdictions, including the United States, states and localities, and internationally. Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to our operations. Significant examples of this concept include capitalization policies for various tangible and intangible costs, income and expense recognition and inventory valuation methods. We must also assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not more likely than not, we must establish valuation allowances. We have valuation allowances of \$534,000 and \$546,000 as of February 2, 2002 and February 1, 2003, respectively, due to uncertainties related to our ability to utilize the net operating loss carry forwards of certain foreign subsidiaries. Future tax expense may be impacted by this judgment.

Valuation of Long-Lived and Intangible Assets and Goodwill

We assess the impairment of identifiable intangibles and long-lived assets to determine if any part of the carrying value may not be recoverable. Factors we consider important when assessing impairment include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

When we determine that the carrying value of an identifiable intangible or long-lived asset may not be recoverable based on one or more of the above indicators, we test for impairment to determine if an impairment charge is needed.

Goodwill is tested annually for impairment. We use a two-step impairment assessment to determine if an impairment charge is needed. The first step of the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss if any. Electronics Boutique has completed the annual goodwill impairment test for fiscal 2003 and no charges were required.

Net intangible assets, long-lived assets and goodwill amounted to \$122.0 million as of February 1, 2003. See Note 15 to the consolidated financial statements for more details.

Contractual Obligations

We have certain commitments under our operating leases which are disclosed in Note 3 to the consolidated financial statements. Furthermore, for information with respect to our debt and lines of credit, see Note 5 to the consolidated financial statements.

Quantitative and Qualitative Disclosures About Market Risk

We invest cash balances in excess of operating requirements in short-term investment grade securities, generally with maturities of 90 days or less. In addition, our revolving credit facility provides for borrowings which bear interest at variable rates based on either the bank's base rate or LIBOR plus 250 basis points, at our option. We had no borrowings outstanding pursuant to the revolving credit facility as of February 1, 2003. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations, and cash flows should not be material.

We have retail operations in various foreign countries including Australia, Canada, Denmark, Germany, Italy, New Zealand, Norway, South Korea and Sweden. We are subject to currency exchange rate and currency devaluation risks due to these operations. Since approximately 81% of our net sales are domestic, we do not believe that currency exchange rate fluctuations will have a material adverse effect on our results of operations and financial condition. We routinely enter into forward and cross-currency swap exchange contracts in the regular course of business to manage exposure against foreign currency fluctuations on intercompany loans, investments in subsidiaries, and accounts payable. As of February 1, 2003, we have foreign currency forward contracts with a notional amount of \$20.3 million and cross-currency swap contracts with a notional amount of \$27.4 million. The total fair market value of all contracts is a deficit of approximately \$4.9 million. Four contracts for \$16.7 million expire during fiscal 2004 and the remaining contracts for \$31.0 million expire in future years. We intend to monitor our exposure to these risks and re-evaluate our hedging strategies as appropriate.

The table below provides information about our derivative financial instruments and other financial instruments by functional currency and presents such information in U.S. dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency forward exchange agreements and cross currency swap agreements. For foreign currency forward exchange agreements and cross currency swap agreements, the table presents the notional amounts. These notional amounts are generally used to calculate the contractual payments to be exchanged under the contracts.

	Fiscal 2004 US\$	Fiscal 2005 US\$	Fiscal 2006 US\$	Fiscal 2007 US\$	Fiscal 2008 US\$	There- after US\$	Total US\$	FMV 2003 FYE
<i>(Amounts in thousands)</i>								
Forward Exchange Contracts								
Contract Amount	16,750	3,550	—	—	—	—	20,300	(961)
Cross Currency Swap Contracts								
Contract Amount	—	3,000	1,311	22,679	443	—	27,432	(3,978)

>>> INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Electronics Boutique Holdings Corp.:

We have audited the accompanying consolidated balance sheets of Electronics Boutique Holdings Corp. and subsidiaries as of February 1, 2003 and February 2, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended February 1, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electronics Boutique Holdings Corp. and subsidiaries as of February 1, 2003 and February 2, 2002 and the results of their operations and their cash flows for each of the years in the three-year period ended February 1, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and intangible assets in the year ended February 1, 2003. As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for consideration received from a vendor in the year ended February 1, 2003.

KPMG LLP

Philadelphia, Pennsylvania
April 17, 2003

>>> CONSOLIDATED BALANCE SHEETS

	February 2, 2002	February 1, 2003
<i>(Amounts in thousands, except per share amounts)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$126,523	\$121,873
Accounts receivable:		
Trade and vendors	11,475	14,298
Other	260	263
Merchandise inventories	149,792	226,866
Deferred tax asset	10,971	9,870
Prepaid expenses	7,426	9,310
Total current assets	306,447	382,480
Property and equipment:		
Building & leasehold improvements	85,029	97,107
Fixtures and equipment	76,247	93,399
Land	5,277	5,427
Construction in progress	1,176	1,968
	167,729	197,901
Less accumulated depreciation and amortization	72,789	87,975
Net property and equipment	94,940	109,926
Goodwill and other intangible assets, net of accumulated amortization of \$1,500 and \$1,055	8,742	12,041
Deferred tax asset	11,897	11,854
Other noncurrent assets	3,812	5,313
Total assets	\$425,838	\$521,614
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 325	\$ —
Accounts payable	136,375	176,146
Accrued expenses	34,326	43,242
Income taxes payable	13,975	18,595
Total current liabilities	185,001	237,983
Long-term liabilities:		
Notes payable	143	—
Deferred rent and other long-term liabilities	3,534	9,131
Total long-term liabilities	3,677	9,131
Total liabilities	188,678	247,114
Stockholders' equity		
Preferred stock – authorized 25,000 shares; \$.01 par value; no shares issued and outstanding at February 2, 2002 and February 1, 2003	—	—
Common stock – authorized 100,000 shares; \$.01 par value; 25,783 and 25,882 shares issued and outstanding at February 2, 2002 and February 1, 2003, respectively	258	259
Additional paid-in capital	166,312	169,527
Accumulated other comprehensive loss	(2,610)	(1,113)
Retained earnings	73,200	105,827
Total stockholders' equity	237,160	274,500
Total liabilities and stockholders' equity	\$425,838	\$521,614

See accompanying notes to consolidated financial statements.

>>> CONSOLIDATED STATEMENTS OF INCOME

	Year Ended		
	February 3, 2001	February 2, 2002	February 1, 2003
<i>(Amounts in thousands, except per share amounts)</i>			
Net sales	\$802,851	\$1,059,338	\$1,309,226
Management fees	4,425	5,889	7,553
Total revenues	807,276	1,065,227	1,316,779
Cost of goods sold	626,939	826,599	971,204
Gross profit	180,337	238,628	345,575
Costs and expenses:			
Selling, general and administrative expense	144,466	179,464	267,566
Restructuring and asset impairment charge (reversal)	—	12,638	(2,611)
Depreciation and amortization	15,855	19,750	22,524
Operating income	20,016	26,776	58,096
Other income	1,550	—	—
Interest income, net	3,096	1,884	1,677
Income before income taxes and cumulative effect of change in accounting principle	24,662	28,660	59,773
Income tax expense	9,791	10,948	22,373
Income before cumulative effect of change in accounting principle	14,871	17,712	37,400
Cumulative effect of change in accounting principle, net of tax	—	—	(4,773)
Net income	\$ 14,871	\$ 17,712	\$ 32,627
Income per share before cumulative effect of change in accounting principle:			
Basic	\$ 0.67	\$ 0.74	\$ 1.44
Diluted	\$ 0.66	\$ 0.73	\$ 1.42
Per share cumulative effect of change in accounting principle:			
Basic			\$ (0.18)
Diluted			\$ (0.18)
Net income per share:			
Basic	\$ 0.67	\$ 0.74	\$ 1.26
Diluted	\$ 0.66	\$ 0.73	\$ 1.24
Weighted average shares outstanding:			
Basic	22,254	23,868	25,833
Diluted	22,466	24,230	26,247

See accompanying notes to consolidated financial statements.

>>> CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Amounts in thousands)	Preferred stock		Common stock		Additional paid-in capital	Accumulated other com- prehensive income	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance Jan. 29, 2000	—	\$—	22,221	\$222	\$ 75,888	\$ (241)	\$ 40,617	\$116,486
Comprehensive income:								
Net income	—	—	—	—	—	—	14,871	14,871
Foreign currency translation	—	—	—	—	—	(1,311)	—	(1,311)
Total comprehensive income								13,560
Issuance of common stock	—	—	22	—	312	—	—	312
Exercise of stock options	—	—	62	1	861	—	—	862
Balance Feb. 3, 2001	—	—	22,305	223	77,061	(1,552)	55,488	131,220
Comprehensive income:								
Net income	—	—	—	—	—	—	17,712	17,712
Foreign currency translations	—	—	—	—	—	(1,417)	—	(1,417)
Hedging activities	—	—	—	—	—	359	—	359
Total comprehensive income								16,654
Issuance of common stock	—	—	2,519	25	68,586	—	—	68,611
Exercise of stock options	—	—	959	10	13,926	—	—	13,936
Tax benefit from stock options exercised	—	—	—	—	6,739	—	—	6,739
Balance Feb. 2, 2002	—	—	25,783	258	166,312	(2,610)	73,200	237,160
Comprehensive income:								
Net income	—	—	—	—	—	—	32,627	32,627
Foreign currency translations	—	—	—	—	—	6,574	—	6,574
Hedging activities	—	—	—	—	—	(5,077)	—	(5,077)
Total comprehensive income								34,124
Issuance of common stock	—	—	23	—	467	—	—	467
Exercise of stock options	—	—	76	1	1,190	—	—	1,191
Tax benefit from stock options exercised	—	—	—	—	1,558	—	—	1,558
Balance Feb. 1, 2003	—	\$—	25,882	\$259	\$169,527	\$(1,113)	\$105,827	\$274,500

See accompanying notes to consolidated financial statements.

>>> CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 3, 2001	February 2, 2002	February 1, 2003
<i>(Amounts in thousands)</i>			
Cash flows from operating activities:			
Net income	\$ 14,871	\$ 17,712	\$ 32,627
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation of property and equipment	15,491	19,493	22,209
Amortization of other assets	365	257	315
Loss on disposal of property and equipment	392	227	649
Deferred taxes	(994)	(9,800)	1,284
Foreign currency transaction gain	—	—	(537)
Changes in assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	3,579	(3,617)	(2,133)
Merchandise inventories	(10,780)	(47,009)	(74,831)
Prepaid expenses	(615)	(2,261)	(1,567)
Other long-term assets	240	(660)	(1,594)
(Decrease) increase in:			
Accounts payable	(19,535)	32,785	36,335
Accrued expenses	734	9,844	8,164
Income taxes payable	(3,471)	14,095	6,087
Deferred rent and other long-term liabilities	516	357	90
Net cash provided by operating activities	793	31,423	27,098
Cash flows used in investing activities:			
Purchases of property and equipment	(44,817)	(23,725)	(35,762)
Proceeds from disposition of assets	93	93	2,544
Net cash to acquire businesses	—	(9,223)	(1,552)
Net cash used in investing activities	(44,724)	(32,855)	(34,770)
Cash flows from financing activities:			
Proceeds from exercise of stock options	861	13,935	1,191
Repayments of long-term debt	(8)	(24)	(506)
Proceeds from issuance of common stock	312	68,612	467
Net cash provided by financing activities	1,165	82,523	1,152
Effects of exchange rates on cash	(479)	321	1,870
Net increase (decrease) in cash and cash equivalents	(43,245)	81,412	(4,650)
Cash and cash equivalents, beginning of period	88,356	45,111	126,523
Cash and cash equivalents, end of period	\$ 45,111	\$126,523	\$121,873
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 5	\$ 16	\$ 31
Income taxes	13,824	8,221	13,469

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

Description of Business

Electronics Boutique Holdings Corp. (collectively with its subsidiaries, the "Company") is among the world's largest specialty retailers of video game hardware and software, PC entertainment software and related accessories and products. The Company operates in only one business segment, as substantially all of its revenues, net income and assets are derived from these primary products.

The Company had 737, 937 and 1,145 operating retail stores throughout the United States, Australia, Canada, Denmark, Germany, Italy, New Zealand, Norway, Puerto Rico, South Korea, and Sweden at February 3, 2001, February 2, 2002 and February 1, 2003, respectively. Total revenues from the U.S. and foreign operations were 86% and 14%, respectively in fiscal 2001 and fiscal 2002, and 81% and 19%, respectively in fiscal 2003. Long-lived assets located in the United States and foreign countries were 79% and 21%, respectively in fiscal 2002, and 74% and 26%, respectively in fiscal 2003. The Company is subject to the risks inherent in conducting business across national boundaries. The Company also operates a mail order business and sells its products via the Internet. Approximately 32%, 38% and 39% of fiscal 2001, fiscal 2002 and fiscal 2003 sales, respectively, were generated from merchandise purchased from its three largest vendors. The Company is highly dependent on the introduction by its vendors of new and enhanced video game and PC hardware and software.

Fiscal Year-End

The fiscal year ends on the Saturday nearest January 31. Accordingly, the financial statements for the years ended February 2, 2002 ("fiscal 2002") and February 1, 2003 ("fiscal 2003") each include 52 weeks of operations. Financial statements for the year ended February 3, 2001 ("fiscal 2001") include 53 weeks of operations.

Principles of Consolidation

The consolidated financial statements include the financial position and results of operations of Electronics Boutique Holding Corp. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Revenue Recognition

Retail sales are recognized as revenue at the point of sale. Mail order and Internet sales are recognized as revenue upon delivery to and acceptance by the customer. Warranty revenue is amortized over the life of the warranty. Management fees are recognized in the period that related services are provided. Sales are recorded net of estimated amounts for sales returns and other allowances. Shipping and handling fee income from the mail order and Internet operations is recognized as net sales. The Company records shipping and handling costs in cost of goods sold. The Company engages in the sale and trading of pre-owned video game products. See Note 13 for additional information.

Cost of Goods Sold

Cost of goods sold includes the following: cost of merchandise purchased from its vendors, freight cost, purchase discounts, vendor advertising allowances in excess of incremental related advertising expenses, volume purchase rebates, and inventory shrinkage expense. The Company's gross margins may not be comparable to those of other retailers or companies in general due to the items the Company includes in cost of goods sold.

Selling, General and Administrative Expenses

Selling, general and administrative costs include the following: retail store operating costs, distribution center operating costs, marketing and promotional expenses net of vendor reimbursements for these expenses, and corporate operating expenses.

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Vendor Programs

The Company receives vendor allowances for certain events offered to its vendors. These events include items such as product catalog advertising, in-store display promotions, Internet advertising, co-op print advertising, product training and promotion at the Company's trade show and inclusion in its vendor-of-the-month program.

Prior to fiscal 2003, all vendor advertising allowances were recognized as an offset to selling, general and administrative expenses. In fiscal 2003, the Company adopted the provision of Emerging Issues Task Force Issue 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor, effective retroactively as of the beginning of fiscal 2003. In accordance with the provisions of Issue 02-16, vendor advertising allowances which exceed specific, incremental and identifiable costs incurred in relation to the advertising and promotional events offered by the Company to its vendors are to be classified as a reduction in the purchase price of merchandise. See Note 2 for further discussion.

The vendor allowances reflected in the financial statements were \$45.8 million, \$49.1 million and \$54.1 million in fiscal 2001, fiscal 2002 and fiscal 2003, respectively. Advertising expenses, excluding the vendor allowances, were \$10.1 million, \$8.2 million and \$11.3 million in fiscal 2001, fiscal 2002 and fiscal 2003, respectively.

Cash and Cash Equivalents

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

Merchandise Inventories

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

Property and Equipment

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

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

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

Deferred Revenue

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

Goodwill and Other Intangibles

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 requires that intangible assets acquired in a purchase method business combination must meet certain criteria to be recognized and reported apart from goodwill and should be used for all business combinations initiated after June 30, 2001. Statement No. 142 states that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for

impairment at least annually. The adoption of Statement No. 141 by the Company in fiscal 2002 did not have a material impact on its financial statements. See Note 15, "Goodwill and Other Intangibles," for disclosures required by Statement No. 142.

Other Assets

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

Guarantees

As of January 1, 2003, the Company has adopted FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." This Interpretation requires certain disclosures be made by a guarantor in its interim and annual financial statements and requires that liabilities for guarantees entered into on or after January 1, 2003, be recorded at fair value. The Company remains contingently liable for the 22 BC Sports Collectibles store leases assigned to Sports Collectibles Acquisition Corporation ("SCAC") which are discussed further in Note 6. Mr. Kim has entered into an indemnification agreement with the Company with respect to these leases. If SCAC were to default on these lease obligations, the Company would be liable to the landlords for up to \$13 million in minimum rent and landlord charges. Due to Mr. Kim's agreement to indemnify the Company for any costs arising from the BC Sports Collectibles leases, no accrual was recorded for this potential liability. The purchase agreement provides SCAC the right, exercisable at any time after the second anniversary of the closing date, to assign back to the Company two of the store leases. The Company has an accrual of \$204,000 for the estimated lease termination costs related to this option. See Note 6, "Related Party Transactions," for more details on the BC Sports Collectibles sale.

Leasing Expenses

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

Preopening Costs and Advertising Expense

Preopening and start-up costs for new stores are charged to the store in the first month of operations. Costs of advertising and sales promotion programs are charged to operations, offset by direct vendor reimbursements, as incurred.

Foreign Currency

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

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by Statement 137 and Statement 138. This statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. As required under Statement 137, the Company adopted Statement 133 as amended in fiscal year 2002. The cumulative effect of the adoption of this standard on February 4, 2001 did not materially impact the Company's results of operations, financial condition or long-term liquidity.

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Market risks relating to the Company's foreign operations result primarily from changes in foreign exchange rates. The Company routinely enters into forward and cross-currency swap exchange contracts in the regular course of business to manage its exposure against foreign currency fluctuations on intercompany loans, investments in subsidiaries, and accounts payable. These contracts vary in length of duration. On February 1, 2003, the Company had a total of seven forward contracts and 27 cross-currency swap contracts. The forward contracts had a notional amount of \$20.3 million and the cross-currency swap contracts had a notional amount of \$27.4 million. The total fair market value of all contracts at February 1, 2003 was a deficit of approximately \$4.9 million, which is recorded within other long-term liabilities on the consolidated balance sheet. On February 2, 2002, the Company had a total of seven forward contracts and seven cross-currency swap contracts. The forward contracts had a notional amount of \$17.3 million and the cross-currency swap contracts had a notional amount of \$10.8 million. The total fair market value of all contracts at February 2, 2002 was a gain of approximately \$300,000. These contracts were purchased as fair value hedges of intercompany loans and investments in subsidiaries, and cash flow hedges of trade payables. The Company recorded an immaterial net loss related to hedge ineffectiveness in fiscal 2002 and fiscal 2003. Changes in the fair value of derivatives are recorded in the same income statement or balance sheet line as the change in value of the underlying hedged item. Four contracts for \$16.8 million expire during fiscal year 2004 and the remaining contracts for \$31.0 million expire in future years.

Income Taxes

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

Net Income Per Share

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

The following is a reconciliation of the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding (amounts in thousands):

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Weighted average shares outstanding – basic	22,254	23,868	25,833
Dilutive effect of stock options	212	362	414
Weighted average shares outstanding – diluted	22,466	24,230	26,247

Use of Estimates

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

Fair Value of Financial Instruments

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

Stock-based Employee Compensation

Effective February 1, 2003, the Company adopted Statement No. 148, "Accounting for Stock-based Compensation—Transition and Disclosures," which requires certain disclosures. The Company accounts for its employee stock options and the purchase plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of Statement No. 123, "Accounting for Stock-based Compensation," to stock-based employee compensation. See Note 9, "Equity Plans," for more details on the Company's stock option and purchase plans.

<i>(Amounts in thousands, except per share amounts)</i>	Fiscal 2001	Fiscal 2002	Fiscal 2003 (1)
Net income, as reported	\$14,871	\$17,712	\$32,627
Less: total stock-based employee compensation	(2,771)	(3,368)	(4,796)
Pro forma net income	\$12,100	\$14,344	\$27,831
Earnings per share:			
Basic – as reported	\$ 0.67	\$ 0.74	\$ 1.26
Diluted – as reported	\$ 0.66	\$ 0.73	\$ 1.24
Basic – pro forma	\$ 0.54	\$ 0.60	\$ 1.08
Diluted – pro forma	\$ 0.54	\$ 0.59	\$ 1.06

(1) Fiscal 2003 net income included the cumulative effect of the change in accounting principle of \$4.8 million, net of income tax, or \$0.18 per share, related to vendor advertising allowance. See Note 2, "Change in Accounting Principle," for further disclosures of the change.

Other New Accounting Pronouncements Adopted

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement provides guidance for the impairment or disposal of long-lived assets. The Company adopted this statement effective for the fiscal year ended February 1, 2003.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, and Amendment of FASB Statement No. 13." The Company adopted this statement effective for the fiscal year ended February 1, 2003.

In July 2002, the FASB issued Statement No. 146, "Accounting for Restructuring Costs." This statement will impact the reporting of expense related to restructurings initiated after 2002. This statement is effective for activities initiated after December 31, 2002.

The adoption of these pronouncements had no impact on the fiscal 2003 financial statements.

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(2) Change in Accounting Principle

In November 2002, the EITF reached consensus on Issue 02-16, Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor. Issue 02-16 addresses the accounting for cash consideration received from a vendor by a reseller for various vendor funded allowances, including cooperative advertising support. Issue 02-16 is effective for new arrangements or modifications to existing arrangements entered into after December 31, 2002, although early adoption is permitted. The Company elected to adopt early, effective February 3, 2002, the provisions of Issue 02-16 in the preparation of this Annual Report. Accordingly, in fiscal 2003, the Company recorded a cumulative effect of accounting change of \$7.6 million, \$4.8 million net of income tax, for the impact of this adoption on prior fiscal years. As of February 1, 2003, \$10.0 million of the Company's vendor advertising allowances has been recorded as a reduction of inventory and will be recognized in cost of sales as inventory is sold. This adoption has also resulted in the reclassification of \$45.3 million of vendor advertising reimbursements earned in fiscal 2003 from selling, general, and administrative expense. The fiscal 2003 impact on income before cumulative effect of change in accounting principle was a charge of \$1.5 million, or \$0.06 per diluted share.

In accordance with the provisions of Issue 02-16, vendor advertising allowances which exceed specific, incremental and identifiable costs incurred in relation to the advertising and promotional events the Company conducts for its vendors are to be classified as a reduction in the purchase price of merchandise and recognized in income as the merchandise is sold. The amount of vendor allowances to be recorded as a reduction of inventory was determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applied this ratio to the value of inventory in determining the amount of the vendor reimbursements to be recorded as a reduction to inventory reflected on the balance sheet. This methodology resulted in a \$7.6 million reduction in inventory as of February 3, 2002, the date of adoption of Issue 02-16. The \$7.6 million, \$4.8 million net of tax, is recorded as a cumulative effect of accounting change in fiscal year 2003. As of February 1, 2003, the methodology resulted in \$10.0 million recorded as a reduction of inventory.

The following table reflects the vendor allowances received and how they were classified in the financial statements (actual and pro forma for the change in accounting) for fiscal 2001, fiscal 2002 and fiscal 2003:

<i>(Amounts in thousands)</i>	Fiscal 2001	Fiscal 2002	Fiscal 2003
Actual			
Total vendor allowances	\$ 45,830	\$ 49,102	\$ 54,116
Gross profit	\$180,337	\$238,628	\$345,575
Percent to total revenues	22.3%	22.4%	26.2%
Amount classified as reduction in cost of goods sold	—	—	\$ 42,925
Percent to total revenues	—	—	3.3%
Amount classified as reduction in selling, general & administrative expense	\$ 45,830	\$ 49,102	\$ 8,829
Percent to total revenues	5.7%	4.6%	0.7%
Amount classified as a reduction in merchandise inventory			\$ 9,989
Pro forma			
Gross profit	\$218,544	\$280,722	
Percent to total revenues	27.1%	26.4%	
Amount classified as reduction in cost of goods sold	\$ 38,207	\$ 42,094	
Percent to total revenues	4.7%	3.9%	
Amount classified as reduction in selling, general & administrative expense	\$ 6,729	\$ 6,192	
Percent to total revenues	0.8%	0.6%	
Amount classified as a reduction in merchandise inventory	\$ 6,812	\$ 7,628	

Prior to adoption of Issue 02-16, all vendor advertising allowances were recognized as an offset to selling, general and administrative expenses. These allowances exceeded the specific, incremental costs of the advertising and promotional events conducted by the Company. The portion of the allowances in excess of the specific, incremental costs was recorded as an offset to other operating expenses within selling, general and administrative expenses. These other operating expenses, which were incurred to support advertising and promotional expenses, included such items as: marketing and merchandise department expenses to develop, promote and manage the events; direct store and store supervisory payroll expenses to implement, manage and monitor the events; distribution expenses associated with receiving and shipping of materials necessary for the events; and corporate expenses related to the design, production and maintenance of Internet advertising events.

The following pro forma financial information for fiscal 2001 and fiscal 2002 reflects the impact of Issue 02-16 as if it had been adopted prior to fiscal 2001:

Consolidated Statements of Income

<i>(Amounts in thousands, except per share amounts)</i>	As Reported Fiscal 2001	Pro Forma Fiscal 2001	As Reported Fiscal 2002	Pro Forma Fiscal 2002
Net sales	\$802,851	\$802,851	\$1,059,338	\$1,059,338
Management fees	4,425	4,425	5,889	5,889
Total revenues	807,276	807,276	1,065,227	1,065,227
Cost of goods sold	626,939	588,732	826,599	784,505
Gross profit	180,337	218,544	238,628	280,722
Costs and expenses:				
Selling, general and administrative expenses	144,466	183,567	179,464	222,374
Restructuring and asset impairment charge	—	—	12,638	12,638
Depreciation and amortization	15,855	15,855	19,750	19,750
Operating income	20,016	19,122	26,776	25,960
Other income	1,550	1,550	—	—
Interest income, net	3,096	3,096	1,884	1,884
Income before income taxes	24,662	23,768	28,660	27,844
Income tax expense	9,791	9,436	10,948	10,636
Net income	\$ 14,871	\$ 14,332	\$ 17,712	\$ 17,208
Earnings per share:				
Basic	\$ 0.67	\$ 0.64	\$ 0.74	\$ 0.72
Diluted	\$ 0.66	\$ 0.64	\$ 0.73	\$ 0.71
Weighted average shares outstanding:				
Basic	22,254	22,254	23,868	23,868
Diluted	22,466	22,466	24,230	24,230
Selected Balance Sheet Information:				
Merchandise inventories	100,185	93,373	149,792	142,164
Stockholders' equity	131,220	127,112	237,160	232,387

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

(3) Commitments

Lease Commitments

At February 1, 2003, the future annual minimum lease payments under operating leases for the following five fiscal years and thereafter were as follows (amounts in thousands):

	Retail Store Locations	Distribution Facilities	Total Lease Commitments
Fiscal 2004	\$ 53,302	\$1,552	\$ 54,854
Fiscal 2005	52,024	1,279	53,303
Fiscal 2006	49,335	595	49,930
Fiscal 2007	46,385	181	46,566
Fiscal 2008	40,739	126	40,865
Thereafter	77,408	463	77,871
	\$319,193	\$4,196	\$323,389

The total future minimum lease payments include lease commitments for new retail locations not in operation at February 1, 2003, and exclude contingent rentals based upon sales volume and owner expense reimbursements. The terms of the operating leases for the retail locations provide that, in addition to the minimum lease payments, the Company is required to pay additional rent to the extent retail sales, as defined, exceed amounts set forth in the lease agreements and to reimburse the landlord for the Company's proportionate share of the landlord's costs and expenses incurred in the maintenance and operation of the shopping mall. Contingent rentals were approximately \$10.0 million, \$12.5 million and \$12.2 million in fiscal 2001, fiscal 2002 and fiscal 2003, respectively. Rent expense, including contingent rental amounts, was approximately \$58.5 million, \$72.8 million and \$85.1 million in fiscal 2001, fiscal 2002 and fiscal 2003, respectively.

Certain of the Company's lease agreements provide for varying lease payments over the life of the leases. For financial statement purposes, rental expense is recognized on a straight-line basis over the original term of the agreements. Actual lease payments are less than the rental expense reflected in the statements of operations by approximately \$508,000, \$462,000 and \$592,000 for fiscal 2001, fiscal 2002 and fiscal 2003, respectively.

(4) Accrued Expenses

Accrued expenses consist of the following (amounts on thousands):

	February 2, 2002	February 1, 2003
Employee compensation and related taxes	\$ 9,947	\$12,474
Gift certificates and customer deposits	6,011	11,282
Deferred revenue	6,145	6,961
Accrued rent	4,038	2,060
Other taxes	3,430	4,592
Other accrued liabilities	4,755	5,873
Total	\$34,326	\$43,242

(5) Debt

The Company had available a revolving credit facility allowing for maximum borrowings of \$50.0 million at February 2, 2002 and February 1, 2003. The facility is subject to an immaterial annual commitment fee. The revolving credit facility was renewed for a one-year term expiring on March 16, 2004. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis points or the bank's base rate of interest, at the Company's option. The revolving

credit agreement contains restrictive covenants regarding transactions with affiliates, the payment of dividends, and other financial and non-financial matters and is secured by certain assets, including accounts receivable, inventory, fixtures and equipment. If the Kim family does not own, indirectly through EB Nevada, at least 25% of the Company's outstanding capital stock, the Company may be declared in default under the credit facility. There was no outstanding balance at February 2, 2002 and February 1, 2003 on this facility.

Letters of credit outstanding with various financial institutions were \$1.8 million and \$694,000 at February 2, 2002 and February 1, 2003, respectively.

The Company had a line of credit and various bank notes with a total outstanding balance at February 2, 2002 of \$468,000. These facilities were paid in full during fiscal 2003.

(6) Related Party Transactions

Transactions with Affiliates

In fiscal 1996, EB, a predecessor to the Company, entered into a services agreement with Game Group to provide consulting, management, training, and advertising assistance which expires on January 31, 2006. The agreement was assigned to EB Services. The agreement prohibits the Company from competing in the United Kingdom during the term of the agreement, and for one year after its termination. The agreement provides for a fee to be paid to EB Services based on a formula of 1% of Game Group's adjusted sales and if budgeted profits are exceeded for the year, a bonus equal to 25% of such excess. The management fee receivable at February 2, 2002 was \$573,000 and at February 1, 2003 was \$605,000; both were included in accounts receivable—trade and vendors. Management fees received from Game Group for fiscal 2001, fiscal 2002 and fiscal 2003 was \$4.4 million, \$6.0 million and \$7.4 million, respectively. Additionally, the agreement provides that EB Services is to be reimbursed by Game Group for all reasonable travel and subsistence expenses incurred during performance of the agreement. At February 2, 2002 and February 1, 2003, there were no outstanding balances due from Game Group.

On November 2, 2002, the Company sold its BC Sports Collectibles business to SCAC for \$2.2 million in cash and the assumption of lease related liabilities in excess of \$13 million. The purchaser, SCAC, is owned by the family of James Kim, the Company's Chairman. The transaction included the sale of all assets of the business including inventory, intellectual property and furniture, fixtures and equipment, and transitional services which were provided by the Company to SCAC for a six-month period after the closing for an additional \$300,000. As of February 1, 2003, \$150,000 of the services agreement has been earned and recognized as income. Subsequent to year end, all of the 22 store leases have been assigned to SCAC. The transaction was negotiated and approved by a committee of the Company's Board of Directors comprised solely of independent directors with the assistance of an investment banking firm engaged to solicit offers for the BC Sports Collectibles business.

(7) Capital Stock

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

(8) Employees' Retirement Plan

The Company provides employees with retirement benefits under a 401(k) salary reduction plan. Generally, employees are eligible to participate in the plan after attaining age 21 and completing one year of service. Eligible employees may contribute up to 60% of their compensation to the plan. Company contributions are at the Company's discretion. Company contributions to the plan are fully vested for eligible employees with five years or more of service.

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Contributions under this plan were approximately \$456,000, \$534,000 and \$624,000 in fiscal 2001, fiscal 2002 and fiscal 2003, respectively.

(9) Equity Plans

Equity Participation Plan

The Company adopted equity participation plans (the "Equity Participation Plans"), pursuant to which 2,100,000 and 2,000,000 shares of common stock were reserved in 1998 and 2000, respectively, for issuance upon the exercise of stock options granted to employees, consultants and directors. The exercise price of options granted under the Equity Participation Plans may not be less than fair market value per share of common stock at the grant date; options become exercisable one to three years after the grant date and expire over a period of not more than ten years. Exercisability is accelerated on a change in control of the Company, as defined in the Equity Participation Plans.

Employee Stock Purchase Plan

Under Electronics Boutique's Employee Stock Purchase Plan (the "Purchase Plan"), associates meeting specific employment qualifications are eligible to participate and can purchase shares quarterly through payroll deductions at the lower of 85% of the fair market value of the stock at the commencement or end of the offering period. The Purchase Plan permits eligible associates to purchase common stock through payroll deductions for up to 10% of qualified compensation. As of February 1, 2003, approximately 958,000 shares remain available for issuance under the Purchase Plan. The weighted-average fair value, net of the 15% discount, of the shares purchased by employees in fiscal 2001, fiscal 2002 and fiscal 2003 was \$15.28, \$19.08 and \$20.27, respectively.

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Expected volatility	62.41%	61.51%	62.38%
Risk-free interest rate	4.86%	4.28%	2.98%
Expected life of options in years	3.0	4.15	4.76
Expected life of purchase rights in months	3.0	3.0	3.0
Dividend yield	—%	—%	—%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The weighted-average grant-date fair value of options granted during fiscal 2001, fiscal 2002 and fiscal 2003 was \$6.94, \$11.00 and \$17.09 respectively.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's information follows (amounts in thousands, except per share amounts):

<i>(Amounts in thousands, except per share amounts)</i>	Fiscal 2001	Fiscal 2002	Fiscal 2003 (1)
Net income, as reported	\$14,871	\$17,712	\$32,627
Pro forma net income	\$12,100	\$14,344	\$27,831
Pro forma earnings per share:			
Basic	\$ 0.54	\$ 0.60	\$ 1.08
Diluted	\$ 0.54	\$ 0.59	\$ 1.06

(1) The fiscal 2003 net income amount includes the cumulative effect of the change in accounting principle of \$4.8 million, net of income tax, related to cooperative advertising allowances. See Note 2, "Change in Accounting Principle," for further disclosures of the change.

A summary of the Company's stock option activity, and related information for the fiscal year ended February 3, 2001, February 2, 2002 and February 1, 2003 follows (amounts in thousands, except per share amounts):

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Outstanding at beginning of year	1,779	2,050	2,093
Granted	412	1,085	433
Exercised	(61)	(959)	(76)
Forfeited	(80)	(83)	(62)
Outstanding at end of year	2,050	2,093	2,388
Exercisable at end of year	989	697	1,215
Weighted average price per share:			
Granted	\$15.32	\$21.37	\$31.74
Exercised	14.02	14.50	16.72
Forfeited	15.33	17.70	22.59

The weighted average exercise price for all options outstanding and exercisable as of February 2, 2002 and February 1, 2003 were \$15.13 and \$17.16, respectively. The weighted average exercise price for all options outstanding as of February 2, 2002 and February 1, 2003 were \$18.34 and \$20.71, respectively.

The table below summarizes information about stock options outstanding as of February 1, 2003 (share amounts in thousands):

	Options outstanding			Options exercisable	
	Number outstanding as of February 1, 2003	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable as of February 1, 2003	Weighted average exercise price
Range of exercise prices					
\$ 9.50–\$17.50	868	6.42	\$14.62	707	\$14.48
\$17.51–\$29.06	860	7.80	\$18.34	427	\$18.79
\$30.00–\$41.65	660	8.69	\$31.79	81	\$31.88
	2,388			1,215	

(10) Income Taxes

Income before income tax expense and cumulative effect of change in accounting principle was as follows (amounts in thousands, except tax rates):

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Domestic	\$19,790	\$25,801	\$52,989
Foreign	4,872	2,859	6,784
Total	\$24,662	\$28,660	\$59,773

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The provision for income taxes for fiscal 2001, fiscal 2002 and fiscal 2003 consists of the following:

	Fiscal 2001	Fiscal 2002	Fiscal 2003
Federal statutory tax rate	35.00%	35.00%	35.00%
State income taxes, net of federal benefit	1.13	0.51	3.35
Foreign incremental taxes	1.59	0.59	(0.33)
Other	1.26	1.51	(0.63)
Change in valuation allowance	0.72	0.59	0.04
Income tax expense	39.70%	38.20%	37.43%
Current:			
Domestic – Federal	\$ 7,357	\$16,684	\$11,191
Domestic – State	1,031	1,825	2,091
Foreign	2,136	2,169	5,092
Deferred:			
Domestic – Federal	(115)	(7,167)	5,932
Domestic – State	(603)	(1,599)	994
Foreign	(15)	(964)	(2,927)
Income tax expense	\$ 9,791	\$10,948	\$22,373

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of February 2, 2002 and February 1, 2003 (amounts in thousands):

	February 2, 2002	February 1, 2003
Deferred tax assets:		
Inventory	\$ 1,838	\$ 5,825
Accrued expenses	9,133	3,001
State net operating loss	576	1,044
Fixed assets	9,019	7,191
Deferred rent	1,423	1,646
Amortization of goodwill	234	143
Foreign net operating loss	1,179	3,420
Total gross deferred tax asset	23,402	22,270
Valuation allowance	(534)	(546)
Net deferred tax asset	\$22,868	\$21,724

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets, except for certain net operating loss carryforwards for which the Company has provided a valuation allowance. The increase in the valuation allowance of \$12,000 in fiscal 2003 results from net operating losses from certain foreign subsidiaries.

(11) Restructuring Charge

On February 1, 2002, the Board of Directors of the Company adopted a plan related to the closing of the Company's 29 EB Kids stores and the sale of its 22 store BC Sports Collectibles business. A \$14.9 million pre-tax charge (\$9.2 million after-tax or \$0.35 per diluted share) was recorded in fiscal 2002 related to this decision. The pre-tax charge was recorded as follows: \$2.3 million related to a write-down of inventory within cost of goods sold and \$12.6 million as a restructuring and asset impairment charge. The \$12.6 million charge consisted of a \$3.5 million write down of

store leasehold improvements, a \$2.3 million write down of store furniture, fixtures and equipment and \$6.7 million in lease termination costs.

The following table summarizes activity in the restructuring accrual for February 2, 2002 and February 1, 2003 (amounts in thousands):

	Beginning Balance	Cash Payments	Charges	Reversals	Other	Ending Balance
Year ended February 2, 2002	\$ —	\$ —	\$12,638	\$ —	\$(5,460)	\$7,178
Year ended February 1, 2003	\$7,178	\$(2,989)	\$ 148	\$(4,193)	\$ 96	\$ 240

In the fiscal year ended 2002, the \$5.5 million in “Other” related to the write-down of \$2.8 million of EB Kids fixed assets and the write-off of \$2.7 million of BC Sports Collectibles fixed assets.

In the fiscal year ended 2003, the Company made \$3.0 million in cash payments consisting of: \$2.2 million paid to landlords for EB Kids lease buy-outs; \$177,000 in professional fees related to the EB Kids store closings; and \$590,000 in professional fees related to the BC Sports Collectibles sale. The Company reversed \$4.2 million of the restructuring accrual consisting of: \$3.6 million related to lease termination costs that were not realized due to the sale of the BC Sports Collectibles business and \$546,000 due to actual costs being lower than original estimates for the termination of the leases for the EB Kids stores.

As of February 1, 2003, there is still \$240,000 remaining of the restructuring accrual. This amount primarily represents a \$204,000 accrual for the potential assigning back to the Company two of the BC Sports Collectibles store leases.

(12) Legal Contingencies

The Company is involved from time to time in legal proceedings arising in the ordinary course of its business. In the opinion of management, no pending proceedings could have a material adverse effect on the Company’s results of operation or financial condition.

(13) Reclassifications

Effective in the second quarter of fiscal 2003, Electronics Boutique changed the income statement classification for pre-owned merchandise trade-in activity to be consistent with industry practice. Previously, the Company recorded a reduction to both revenue and cost of goods sold for the cost of the pre-owned merchandise accepted for trade. The reclassification of these transactions increased both revenues and cost of goods sold by \$36.5 million and \$50.1 million in fiscal years 2001 and 2002, respectively. There was no impact on operating income or net income for any period as a result of this reclassification.

(14) Comprehensive Income

Comprehensive income is computed as follows (amounts in thousands):

	Year Ended	
	February 2, 2002	February 1, 2003 (1)
Net income	\$17,712	\$32,627
Foreign currency translations	(1,417)	6,574
Hedging activities	359	(5,077)
Comprehensive income	\$16,654	\$34,124

(1) The year ended February 1, 2003 net income amount includes the cumulative effect of the change in accounting principle, net of income tax, related to cooperative advertising allowances. See Note 2, “Change in Accounting Principle,” for further disclosures of the change.

>>> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Gains and (losses) on foreign currency translations are a result of the Company's investment in its foreign subsidiaries in Australia, Canada, Denmark, Germany, Italy, Norway, South Korea and Sweden. Gains and (losses) on hedging activities are primarily the result of foreign exchange forward contracts and cross currency swap agreements the Company has entered into to protect its investments in its European subsidiaries from foreign currency fluctuations. The net gains and (losses) on these activities is primarily the result of the Company's investment in its Australia, Canada and South Korea subsidiaries that have not been hedged.

(15) Goodwill and Other Intangibles

In July 2001, the FASB issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 142 states that goodwill and intangible assets with indefinite useful lives will no longer be amortized, but instead be tested for impairment at least annually. The following tables show the intangible assets and goodwill as of February 1, 2003 (amounts in thousands):

Amortizable Intangible Assets

	Gross Carrying Amount	Accumulated Amortization
Key Money (1)	\$1,280	\$237
Other	200	140
Total Intangible Assets	\$1,480	\$377

(1) Key Money represents payments made to landlords, outgoing tenants or other third parties to enter into certain store leases.

Intangible assets are amortized over their estimated useful lives which range from three to five years. Amortization expense of amortizable intangible assets for the fiscal years 2001, 2002 and 2003 was \$53,000, \$44,000 and \$315,000, respectively. Amortization expense for amortizable intangible assets for the next five years is: \$291,000 in fiscal 2004, \$240,000 in fiscal 2005, \$239,000 in fiscal 2006, \$229,000 in fiscal 2007 and \$104,000 in fiscal 2008.

Goodwill

The changes in carrying amount of goodwill for the year ended February 1, 2003 is as follows (amounts in thousands):

Balance as of February 2, 2002	\$ 8,354
Purchase additional 30% of Italian subsidiary (1)	1,005
Reduction in purchase price of Swedish subsidiary (2)	(547)
Planet Games acquisition (3)	63
Buyout of German partner (4)	343
Foreign exchange fluctuations and other	1,720
Balance as of February 1, 2003	\$10,938

(1) During fiscal 2003, the Company purchased the remaining 30% of the Italian subsidiary from its minority owner. The Company now owns 100% of its Italian subsidiary.

(2) During the second quarter of fiscal 2003, an adjustment was made to the purchase price for the Company's acquisition completed in Sweden in the fourth quarter of fiscal 2002.

(3) During the third quarter of fiscal 2003, the Company acquired the assets of a five store retail chain in Minnesota.

(4) In January 2003, the Company bought out one of its partners in the German subsidiary. This resulted in an increase of ownership of .3125%. The Company now owns 99.6875% of its German subsidiary.

Comparison to Prior Year “As Adjusted”

The following table presents prior year reported amounts adjusted to eliminate the effect of goodwill amortization in accordance with Statement No. 142.

<i>(Amounts in thousands, except per share amounts)</i>	February 3, 2001	February 2, 2002	February 1, 2003 (1)
Net income, as reported	\$14,871	\$17,712	\$32,627
Add: goodwill amortization, net of taxes	188	132	—
Adjusted net income	\$15,059	\$17,844	\$32,627
Basic earnings per share:			
Net Income	\$ 0.67	\$ 0.74	\$ 1.26
Goodwill amortization, net of taxes	0.01	0.01	—
Adjusted net income	\$ 0.68	\$ 0.75	\$ 1.26
Diluted earnings per share:			
Net Income	\$ 0.66	\$ 0.73	\$ 1.24
Goodwill amortization, net of taxes	0.01	0.01	—
Adjusted net income	\$ 0.67	\$ 0.74	\$ 1.24

(1) The year ended February 1, 2003 net income amount includes the cumulative effect of the change in accounting principle of \$4.8 million, net of income tax, related to cooperative advertising allowances. See Note 2, “Change in Accounting Principle,” for further disclosures of the change.

(16) Acquisitions

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

On August 2, 2001, the Company acquired 70% of the capital stock of an Italian company, consisting of 10 retail stores and a distribution facility, for approximately \$1.7 million.

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

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

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

For more details on acquisitions during fiscal 2003, please refer to Note 15, “Goodwill and Other Intangibles.”

>>> MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

	Fiscal 2002		Fiscal 2003	
	Low	High	Low	High
First fiscal quarter	\$17.00	\$28.90	\$28.03	\$38.55
Second fiscal quarter	27.75	36.10	21.30	32.24
Third fiscal quarter	23.41	42.07	21.02	29.38
Fourth fiscal quarter	31.66	44.51	13.10	31.81

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

As of April 24, 2003, we had approximately 35 shareholders of record (including Cede & Co., the nominee for Depository Trust Company, a registered clearing agency) of the 25,891,158 outstanding shares of Electronics Boutique's common stock. On April 24, 2003, the last reported sale price for Electronics Boutique's common stock as quoted by NASDAQ was \$18.58 per share.

Dividend Policy

Electronics Boutique has not paid any cash dividends on its common stock to date. Electronics Boutique is subject to various financial covenants with our lenders that could limit and/or prohibit payment of dividends in the future.

>>> CORPORATE INFORMATION

Electronics Boutique Holdings Corp.

Board of Directors

James J. Kim

Chairman of the Board
Electronics Boutique Holdings Corp.

Jeffrey W. Griffiths

President and Chief Executive Officer
Electronics Boutique Holdings Corp.

Dean S. Adler

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

Louis J. Siana

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

Susan Y. Kim

Director, Philadelphia Orchestra
(a non-profit music organization)

Stanley Steinberg

Former Chairman of Sony Retail Entertainment
(an electronics and entertainment company)

Alfred J. Stein

Former Chairman and CEO of VLSI Technology, Inc.
(a high technology semiconductor company)

Executive Officers

Jeffrey W. Griffiths

President and Chief Executive Officer

John R. Panichello

Executive Vice President and Chief Operating Officer

James A. Smith

Senior Vice President, Chief Financial Officer and Secretary

Seth P. Levy

Senior Vice President and Chief Information Officer
President, EB Games Online, Inc.

Steven R. Morgan

Senior Vice President, President of Stores - North America
President of Canadian Operations

Shareholder Information

Corporate Headquarters:

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

Independent Certified Public Accountants:

KPMG LLP
1601 Market Street
Philadelphia, Pennsylvania 19103

Corporate Counsel:

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

Registrar and Stock Transfer Agent:

EquiServe Trust Company, N.A.
PO Box 9187
Canton, Massachusetts 02021-9187

Common Stock:

The Company's common stock is quoted on the NASDAQ
National Market under the symbol ELBO.

Shareholder Inquiries:

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

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

Internet Address:

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

Annual Meeting:

Electronics Boutique Holdings Corp. will hold its annual meeting
of stockholders on June 25, 2003, at 11:00 AM, local time, at
the Company's Corporate Headquarters located at 931 South
Matlack Street, West Chester, Pennsylvania 19382.



Electronics Boutique Holdings Corp.

931 South Matlack Street

West Chester, PA 19382

www.ebholdings.com

www.ebgames.com