GameStop Corp.

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Mark-Andre Saucier-Nadeau: Good morning, everyone. We're delighted today to welcome GameStop to our conference and to have Paul Raines, CEO, Rob Lloyd, CFO, and Matt Hodges, Director Investor Relations with us.

GameStop is a world leading specialty video game retailer with leading market share in the US, Canada, Australia, and Continental Europe. This management team has achieved tremendous success with continued share gains across-the-board, the rollout of comprehensive and thriving digital strategy, the launch of the very successful PowerUp program, and significant cash return to shareholders via a sizeable share purchase program, all of which we'll have the chance to talk about today.

Now we'll jump straight into Q&A.

So first wanted to start a little bit high level with a question we've asked all of our companies a the conference this year. And it's about the macro and see what do you expect in terms of the environment? Do you expect it to deteriorate, stay the same, get better? And if you expect it to deteriorate, what are you doing in terms of planning for that?

Paul Raines: Sure. Thank you and good morning, everyone. Thanks for joining us today. As far as the macro, I was mentioning to Matt and to Mark-Andre that I saw Frank, Blake, and Carol Tomei out in the hall and they asked me to say good things about housing starts. So I don't get as much data as I used to on that, but certainly at GameStop we would like to see more strength in the consumer.

As far as what we see, our business is largely driven by title, count, and hardware pricing activity more than it is the macro. Gaming is an inexpensive entertainment solution. The average video game has 20 to 40 hours of game play, so we have seen consumers in previous downturns flock to gaming and go to gaming as an entertainment source. And so I would say that the macro is not as relevant to us as the title count is and so forth, although we would like to see more strength in the consumer. We'd like to see more employment. We certainly don't have a ton of optimism around where that has been and what we see.

Having said all of that, our title count for holiday is extremely strong. As we said on our second quarter call the strongest title lineup we've seen in a long time, perhaps ever. We think holiday will be very compelling in terms of the new title count. At the same time, our used preowned business is the best value proposition in video gaming, so we know that the consumer seeking value will be in our stores shopping for used preowned games, software and hardware, and we think that that will be a very strong holiday offering as well.

Mark-Andre Saucier-Nadeau: One thing that's been becoming more and more important about the GameStop story is the digital piece of the business. And I was wondering if you could talk about the main pillars of the strategy? How do you see that evolving? Where the industry is going and if you could talk about distribution channels and the evolution over time.

Paul Raines: Sure, and let me talk a little bit about the strategy and the digital piece. And I'll ask Rob Lloyd, our CFO, to give you a little bit of color on how the financials are impacted by this, because we are off in some interesting uncharted waters on the digital business.

First point I would make is that GameStop is in the midst of a pretty significant transformation. We started a strategic review of the company about two and a half years ago at the request of our board. We spent a lot of time looking at the external/internal factors, used some outside expertise, did some internal work. And we launched a strategic plan in the spring of 2009. And what you're seeing us do today is the output of our board approving a series of capital investments.

So I would say that the first point is the foundation of brick and mortar, physical product sales, is a very solid one for the foreseeable future. We have said publicly that we expect flat to low single-digit growth through 2014 on physical product sales in the console gaming space. We think there's a lot of growth on digital content sales for console as well as non-console digital sales.

If you look at our strategy, it revolves around making and maximizing our stores and bringing digital content sales into those stores. We've launched a PowerUp Rewards program, which is much more than a loyalty program. We're starting to call it a digital engagement program where we have over 13 million members now who engage GameStop in store, on the web, through a digital locker at poweruprewards.com, through mobile apps, and through a series of touch points that drives all of our businesses.

We've acquired a company called kongregate.com, which is a casual game portal that's growing very well, 40% up year-over-year. We're selling digital content sales in store. You hear us talk about DLC, which means that we're launching Map Packs and digital content for console games. You may be familiar with the Call of Duty franchise. We are by far the leader with Activision on driving DLC sales through the Call of Duty Map Packs. You may have seen Resurrection, a series of digital content items that we're now reserving and launching in store and fulfilling the consumers through digital codes that go right to their digital locker. No inventory, no physical product, but we have built them into our model and we launch them just like we would a game.

We've acquired a PC download business called Impulse, which now is integrated with gamestop.com. So we're in the PC download business. We're very happy with that. And we're in a very exciting beta test with our streaming service. We acquired a company called Spawn Labs last year. I was telling some investors upstairs I'm kind of hooked on the beta service now. Every night I'm playing two hours of streaming, which is kind of different for us. But -- so we've got some exciting pieces, but all of it is based on a strong foundation round the store.

Now the store footprint is being rationalized in ways that we think are very innovative. We've announced net zero square footage growth in the United States. We are opening 200 stores this year and closing 200 stores. When we go to close or open stores, we're using our PowerUp Rewards data. And if you look on our website, you'll see an investor document that gives you some examples of that. But we now are able to drill down and look at spend not just by zip code, not just by store, but by individual home and household. So we can consolidate customer traffic into one store, we can open stores in communities that we know have a lot of GameStop customers who are driving over 10 miles to a GameStop store. So there's a lot of innovation happening on the real estate side.

So that is really we think a pretty exciting story. I'll let Rob -- maybe you want to talk about some of the impact that we saw in the second quarter from the digital strategy.

Rob Lloyd: Sure, we did $290 million in digital revenues last year. Our goal is to get to $1.5 billion by the end of 2014. In the second quarter, we had 69% growth year-over-year. Digital was a significant contributor to our gross profit growth. So we're very pleased with directionally where the business will go -- is going. And as part of our 50% CAGR plan to get to that $1.5 billion, we're on track to the $450 million or so that we expect for 2011.

Mark-Andre Saucier-Nadeau: Great. You've talked about PowerUp and it's very interesting that even less than a year after the launch it's already -- seems to be a driving force of the business already. And I was wondering if you could talk about key features of the program and what you think are the pieces that are really driving the success?

Paul Raines: Absolutely. We launched the PowerUp rewards program nationally in October of last year. And those of you who follow us know that in our second quarter earnings call we took our guidance for the third quarter down by $0.03 a share I think it was, right?

Rob Lloyd: A year ago.

Paul Raines: A year ago. And what we said was we were going to accelerate the launch of PowerUp Rewards. And we wanted to be in ahead of holiday. Fast-forward almost a year and we're very pleased with that decision. It was the right decision. And it's more than paid off in terms of benefits. Today we sit here with over 13 million members of our program.

If you are a PowerUp rewards member at GameStop you can engage us in two ways. There's a free membership and a paid membership. The free membership you can get a card from us at any store. It gets you communications from us, a digital locker, an encrypted website at poweruprewards.com and a game library. We track on the behalf of the consumer every game they buy at GameStop. When we did our consumer research in the design of the program, we learned that consumers like to brag about what games they own and what games they've purchased and hardware, et cetera. So it's kind of our virtual locker for all of the things that you own. So you get that as part of the free service.

There's also a $14.99 annual subscription for a paid one, which is called PowerUp Rewards Pro, which gets you discounts on preowned games as well as trade credits, as well as a subscription to our magazine called Game Informer. Game Informer is the fourth highest circulation magazine the United States, bigger than Newsweek, bigger than Time. We also have a digital version of it that is the largest digital magazine, we believe, in the United States with over 500,000 subscribers.

So the program engages you in multiple ways at multiple levels. A few interesting facts around the program. Over 60% of our transactions now are coming from PowerUp Rewards members. We believe that one of our targets is to drive that number even higher. It gives us tremendous insight into consumer spend and consumer behavior. We know at a SKU level what every consumer and member is buying from us and we can promote to those consumers in unique and stealthy ways.

It's interesting for example that we launched -- we were accepting trades on Apple iDevices and we got a little press on that this week. PowerUp members actually knew that last Thursday because that's when the 13 million members receive the private communication around that. And so you see that we're able to market in stealthy ways that our competitors really don't know about.

The last point I would make is that renewals of our membership is running very well and the paid membership is over 60% of the members, which I think is a -- for some of our investors has been a real head scratch. People go well gosh, over half the people are paying to be members of this program. And the reason is it's such a compelling program. It engages you in so many ways. The consumers are telling us it's a very exciting program. So look for more at poweruprewards.com and you can learn more about it. And of course it's a huge piece of the future.

I would also add as a customer acquisition tool PowerUp Rewards is a tremendous asset for us because we know we now have in our membership -- our model says that membership represents 25% to 30% of all video game consumption in the United States. If you think about launching digital businesses, if you think about launching a PC download business, a streaming business, our ability to market to the consumers who are the heavy spenders in video gaming is really unrivaled by anyone in the market. So we are finding that as a customer acquisition tool to launch new digital businesses, PowerUp Rewards is also a huge asset.

Mark-Andre Saucier-Nadeau: And could you talk about how it integrates all of your offerings?

Paul Raines: Sure, I'll -- let me say a piece on how that works and I'll ask Rob to talk a little bit about how we have scoped PowerUp for the future and what some of the cost drivers are in it and how we see some of the benefits.

What's interesting about the PowerUp Rewards program is we are tracking your consumption and offering a game library to you. There's no reason that game library has to be only physical games. So for example, we have a digital content business and it's growing. We also know consumers -- we know what digital content consumers have bought. We also have a Kongregate website, which is casual gaming site. We could easily plug Kongregate activity into PowerUp Rewards. So what's happening is the PowerUp Rewards data has become the central data repository for all of our consumer activity. So as we launch new businesses, you'll see us plug that into PowerUp Rewards.

We also know PowerUp Rewards points are becoming a very important virtual currency. Consumers tell us that they're points account at GameStop on PowerUp Rewards is becoming a huge asset. And we're using it now at kongregate.com and you'll see us continue to evolve that. But Rob, maybe you want to talk about some of the economics of the program.

Rob Lloyd: Sure, I think what we talked about going back to the beginning of this fiscal year is that the PowerUp program is additive to our gross profit dollars, but it does detract a little bit from our gross margin while we're in the high growth mode. We had stated that we thought we would see 12 million to 15 million members in the program by the end of this year. Obviously at13 million we've exceeded the low end of that target and we're on pretty good pace to get to the high end of that target. So the initial costs of signing up members, including the collateral materials and the -- sort of the points bonus that you get for joining the program, do add to the cost structure upfront. We expect as the membership level matures in the next couple of years that we'll see that that impact will decline a little bit.

Mark-Andre Saucier-Nadeau: Now turning to margins. Like we -- last quarter you were able to achieve your earnings guidance despite much lower sales because margins increased sharply. We've heard some of the drivers on the call, we're just wondering if you could talk about what this means in the medium to long term. And if there's a margin story that's emerging at GameStop that people should be more focused on. And if there is a margin story, like what are the drivers and how sustainable are they?

Paul Raines: We'll let Rob take that.

Rob Lloyd: Well, we saw a significant increase in our gross profit, right, in the second quarter over last year. I think it was 250 basis points. Half of that came from a shift in our sales mix to our preowned products. That was driven to some extent by the marketing efforts that we've made with respect to preowned. Things that we've done in the management of the preowned program, the merchandising in store, how we're highlighting the value and the product in store and making sure that our assortment is right.

A part of it was driven, candidly, by the weak new title release schedule in the quarter. So while we were very pleased with those results, we don't necessarily think that that's going to happen every quarter. A substantial part of the margin improvement came from what we call the other category of sales. That includes our digital properties. Digital business, as I mentioned earlier, accounted for about a third of our gross profit dollar improvement.

So I think as you look forward in that other category you can probably expect maybe a 3 to 6 percentage point improvement in the margin rates over a prior year period with probably the lower end of that range as you look at the holiday quarter. Obviously we're going to sell a lot of accessories. Well we sell hardware in the holiday quarter. That's going to change that mix a little bit.

But again, we're very pleased with how the digital business is impacting and moving that margin rate.

Paul Raines: One note, one thing I would add, Mark-Andre, is what you don't want to miss on this story too is our ability to rationalize our real estate. For years in retail, and I did this for years, success came through build out stores, penetrate new trade areas, keep adding stores, leverage your fixed costs over bigger store base, drive supply chain efficiencies, scale on merchandising and purchasing, et cetera. That was the retail model for many years.

What we are doing now and what's very interesting I think for investors to really understand is that we are consolidating our real estate now in a very unique way. We are able to, because of our consumer data, that again we know over 60% of our volume now we know in SKU level detail where it is, what stores we're shopping, what consumers -- we were able to close stores nad transfer consumers to a consolidated store base in a very, very efficient way.

I can remember for years you close a store and you hope consumers find your new store. But what we're doing today is we're communicating with you via the PowerUp Rewards program. We know exactly what zip codes, what homes need to transfer. For example, if we close a mall store and we have a strip center store adjacent to it, we market that consumer, we tell them we know you like Grand Turismo Sony PlayStation games, we have a 10% coupon available for you at this other store. Here's a map, come see us, we're expecting you. If I don't see you in two weeks, I hit you with another communication that says hey, we haven't seen you yet. Come on over.

If you take all of that transferred data and aggregate it, what we've said publicly at the beginning of this year is that our model is that if we can transfer 40% to 60% of a closed store volume, we can increase the margin contribution of the combined store base by 20% to 30%. We don't want to give a lot more data than that because our competitors are watching and imitating us closely, but we are happy with that transfer rate. We're well ahead of it.

And I would also add there is another transfer effect happening that is beyond the adjacent store. What we're learning is that as we close stores, we transfer a significant amount of customers to an adjacent store that thanks to the PowerUp Rewards data, we know that a significant amount of consumers go to tertiary and often to 15, 20, 30 other stores. So we're able to track those consumers and make sure that they stay inside the GameStop echo system.

So I think that the real estate story contributed in the second quarter and it's one that is emerging for us that we think is really uncharted waters.

Mark-Andre Saucier-Nadeau: Still staying on the margin front since we're there. How much flexibility you have with your cost structure if we're in a weaker top line environment, understanding that fourth quarter top line might -- probably is going to be better, but.

Paul Raines: Let me say a couple of things about that and I'll let Rob give you some color on the leverage in the model and so forth. I think a couple of things are important to understand about GameStop. The first is that our real estate, which is other than payroll is one of your biggest costs, and especially a retailer. Our real estate is extremely flexible. I've covered how we consolidate stores. But if you look at our real estate portfolio, over 20% of our real estate gets renewed every year. The average term on our real estate is a little over two years. I've had investors tell me well, you guys have -- you're married to all this real estate. You on all this real estate. We don't own any real estate. We have a very flexible lease portfolio, we're seeing significant rent reduction. So on the occupancy side we feel like we have tremendous protection on the downside.

In addition to that, this methodology around consolidation is giving us great returns. Rob, maybe you want to talk about some of the leverage in the model and what we're doing around that.

Rob Lloyd: Sure, our -- GameStop was built on a culture of watching every dollar. Basically treating it as if it's coming out of your own back pocket. So as we built the company, as we built our store base and structure, our field management teams are aligned with the thinking that we've got to control our costs at every turn basically. So when we see that the top line is not developing in a quarter we can obviously use things like store payroll to control our spend. We want to make sure that we're delivering a topnotch customer service experience to our customers, but at the same time can affect savings there.

Same way as we operate our office -- back office structures and our store support center costs. We're very attuned with where the business is going and where we need to push on the various levers that we've got to control costs there.

Mark-Andre Saucier-Nadeau: Now I wanted to touch on the used business. Sales have been accelerating for the past two quarters. That's contrasted with the industry, just more broadly. Could you talk about the changes you've made in that business recently? And how you think that PowerUp and DLC is contributing to the segment?

Paul Raines: Very interesting phenomenon occurring there. First of all, if you don't know us, one of the most important parts of our model that you should understand is that we operate a very significant preowned or used business of video games. We operate a very large refurbishment center in Dallas. We take trades of old games in our store, we pay consumers for the trades, they take those -- that currency and apply it to new games.

Last year that currency was over $1 billion, so we have an ability to subsidize the consumer by creating this market, which is we call the used business. It has accelerated. The last two quarters have had very significant growth. We grew 9% last quarter. The reasons are really three main strategies around that. The first is we reorganized our merchandising team to bring a senior VP who is focused only on the preowned business. And as you know, that brings extra focus. Our in store merchandising has gotten much sharper. You see us featuring top 25 sections. We're actually showing pricing, two levels of pricing in our stores. One without the PowerUp Rewards Pro discount and one with. So now customers are able to see the value of being a PowerUp Rewards member.

And third, and perhaps most important is we're using the PowerUp Rewards data to integrate very tightly with the used business. How are we doing that? If you think about consumer data, if you're a student of someone like dunnhumby or Tesco who really invented customer relationship data and marketing and merchandising, we have taken our entire file of consumers who, by the way represent 25% to 30% of all consumption, not just ours, in the United States, we've broken that into deciles of spend. Then we've taken that and said consumers show four main behaviors at GameStop. They buy new games, they buy used games, they trade old games, and they reserve new games with us. So we've taken the deciles and spread across those four behaviors and we have very specific targeted strategies around each of those things.

So for example, I'm a case where I buy new, I buy used, and I trade games, but I rarely reserve a game. That's probably because I work at GameStop, I figure I can always get a copy of a game maybe, I don't know. But I'm getting targeted specifically in my PowerUp Rewards account with offerings around reserve this game, get a unique weapon. Reserve this game, get a unique level. Come into the store, we'll give you this. We are targeting consumers specifically around used behavior.

Keep in mind that top of mind awareness around the used business is 40% or less, so we have a long way to go in educating the consumer, we have a lot of consumers who only buy new, have never bought a used game. So all of that wrapped up into what we're doing with great execution at the store level is driving that acceleration, Mark.

Mark-Andre Saucier-Nadeau: And since you just talked about awareness, can you talk about your comments, your recent comments that actually increased competition of these -- what's going on right now in the used business. How that's helped raising awareness as opposed to just taking share and maybe that just actually grew the pie.

Paul Raines: Yes, we've seen a lot of big box competitors as well as online competitors jump in and out of the used business in the past three, four years. Well, historically, but in the past three or four years we've seen quite a bit of it. In fact, I think we're on our sixth attempt by a big box competitor to enter the used business.

I think that what's interesting is that if top of mind awareness is only 40% of GameStop consumers, if you do the consumer work, and this is where many of competitors really don't understand the category, if you do the consumer work, what you learn is that the top of mind awareness of the used business is still very low. In other words, a lot of people go to GameStop and don't understand we offer used games or used consoles. And they only think we do launches of -- midnight launches of Madden and Call of Duty and Nintendo. They don't know that we also have this opening price point business we call the value business we called used.

So the awareness level is still very low in the category. As competitors enter and being to advertise that they too now are in the used business, if they put up banners outside their stores, as they spend millions of dollars advertising what we're seeing is that consumer awareness increases. And fortunately the in store experience is superior at GameStop. So a lot of consumers go to a competitor, try to trade a game because they saw an ad, get frustrated with the poor service, transaction time is very lengthy, et cetera, and they come right back to GameStop. So we're seeing traffic being driven by competitors entering.

What we believe is that the used business is a marketplace that can grow based on consumer awareness. And competitors are helping us drive that awareness.

Mark-Andre Saucier-Nadeau: Now turning to digital, which like we said is becoming more and more important. And I wanted to talk about Impulse for a minute. And it seems to be one of the key drivers of your long-term guidance for the PC digital piece of the business. And I was wondering if you could talk about the strategy there to capture share from competitors or even expand the market. If you could discuss that.

Paul Raines: Yes, let me talk a little bit about the strategy and I'll ask Rob to give you some color on how the guidance was affected by it. I think if you look at our strategic work, if I could bring you into the room with us on the strategic review that we started two and a half years ago, one of the clear gaps that we had was we were not in the PC download space.

Now if you follow gaming, there's a console business, which is the typical, what you're familiar with, PlayStation, Nintendo, Wii, Xbox. But there's also a sector of the category that is people who play on their PC. On their home computer or laptop. Those customers typically will download those games more and more. If you remember back in the, maybe the '80s and '90s you would sell PC software in a store. Increasingly that became a download business. We were not in that category. We offered it with a white label solution on our website. If you downloaded games from us in 2008, 2009, I apologize, it was not a great experience. So we knew that we were not in a category that by most estimates is a $700 million, $800 million, $900 million category. And that category was really controlled by large player.

So as we went out and did our work in our venture, our GameStop Digital Ventures Group on the West Coast, we saw an enormous gap in terms of PC downloads. So we went out, we found a company called impulsedriven.com, which is arguably the number two or three player in the PC download technology space. And we acquired that company we've now integrated it to GameStop.com.

So if you go GameStop.com today I'm pleased that you will have a great PC download experience. And we will bring all that unique value that we bring. We'll let you pay with trade currency, we will let you have PowerUp Rewards points, and we'll give you great counsel and advice in the store. So we're excited about that category. It's a category we weren't even in in a meaningful way until about six months ago. So Rob, maybe you want to talk about how that affects some of the financials?

Rob Lloyd: Yes, the PC digital is one of the three digital components of the $1.5 billion that we talked about for 2014 digital revenues. We expect that PC digital can be between $900 million and $1 billion of that $1.5 billion. So obviously things like PC digital download within that PC group are very important to our future strategy.

Mark-Andre Saucier-Nadeau: And now about Kongregate. It seems to be gaining significant traction. I was wondering if here you could also talk about the strategy, the profitability of that business, relative to the other digital pieces of your effort. And the competitive landscape in that business.

Paul Raines: Well, Kongregate is a great casual game site. I would say if anyone here has some time at work and I know everyone's very busy, but if you want to kill some time and you want to have some fun, go to kongregate.com. Kongregate with a K. That's our casual game portal, 14 million uniques. Traffic is up 40% year-over-year based on Google Analytics and comScore. It's a very exciting piece of our business because it's a non-console business. It's a gaming business that is flash based, casual, and immersive games.

So Kongregate has to ways to monetize. The first ad most important is in-game currency. So we sell in-game currency called Kreds -- K-R-E-D-S. And the way that works is you play a game for free and then you get to a certain level and Kongregate offers you chances for better weapons, better graphics, better levels. And to play that you have to buy currency. And you can buy that currency, you can use a GameStop gift card, you can use a credit card, et cetera. You can go to a GameStop and give trade credits, et cetera.

We also have advertising on Kongregate. Kongregate also has a mobile app for Android devices. So if you have an Android phone, go to the Google marketplace, download the Kongregate Arcade App. It's a great way to kill some time.

That business is really interesting as a standalone property, but what we think has tremendous potential is the in store promotions of that business. And you saw us during the -- early in the third quarter begin to promote a game called Tyrant. We promoted it in store, created a lot of synergies, sent a lot of PowerUp Rewards members to Tyrant. A lot of the growth you're seeing from Kongregate is coming from GameStop console customers who are PowerUp Rewards members who we are pushing into testing the Kongregate app.

Mark-Andre Saucier-Nadeau: Still in digital. Downloadable content. You guys have been the first retailer to launch DLC in stores. You were obviously very successful in doing so. Could you talk about the DLC customer that comes to GameStop in contrast to the DLC customer that goes online and is the strategy focus on expanding the pie or also gaining share from online?

Paul Raines: Yes, you may ask the question, as many investors have, why would I buy a digital item in a store that I could just buy online? It's a very common question that we get. Because everyone has in their mind the analog of the app store. You want music, you go to iTunes, you download it. Why would I ever go to a store to buy that, right? It's very typical.

So what you've got to understand around console gaming is that console gaming is a walled garden. If you want to play PlayStation or Xbox or Nintendo, you have to go through their networks. One's called Xbox Live, one's called the PlayStation Network. And Nintendo really doesn't do that much online.

So that creates a dynamic around content that's very different from what you're used to in terms of iTunes, et cetera. So we saw that, and what we saw is that consumers were coming to our store to learn about digital content. And how does digital content work for console? If you like to play Call of Duty, many of you may play Call of Duty or Madden or Fifa or Just Dance or whatever games you like, once you finish the content that's on the disc, many people go play online in what's called multiplayer.

And multiplayer is I go online and I do battle with people from around the world in different levels of Call of Duty. And we chase each other around, shoot each other with different weapons. That content, you play through it and there's no new content on the disc. So you have to find new levels. And what the smart publishers are doing, and you see Activision probably is the leader now with GameStop, they create new levels for another game, like Call of Duty Black Ops. So now there's a cadence of every 90 days a new Call of Duty Black Ops digital content level.

We merchandize that product in store visually. Our associates talk to customers about it. We also market customers through PowerUp Rewards, and we sell you that content. Typically it's $14.99. We will sell you that Map Pack in a store, you don't take anything home except the receipt. But what's on the receipt is a digital code or if it hasn't been launched yet, we will fulfill the code to you at launch in your digital locker at poweruprewards.com. We have an encrypted locker we host on behalf of every consumer.

You go online to Xbox Live, you download that content and you play fresh new content. New Map Packs, new scenes, the North Poles, Zombie Modes, et cetera. So we saw that and we've driven a technology with Microsoft and Sony, a proprietary technology to create a code serving process. As consumers buy the game in store, we serve a code directly out of Xbox Live and PlayStation Network. So, long story short, we've created a digital business in store.

Now, interesting data on this. First of all it's becoming a very significant piece of the world. Console download -- digital content for console is growing. Listen to EA, Activision, everyone is driving a lot of growth. You will see a lot of content coming with new games. We recently did a survey of consumers who bought DLC at GameStop. Interesting points. Thousands of consumers, 50% of them had never bought DLC before. So it's clear to us that we're expanding the audience for DLC. I like to say we're bringing digital content to mom and dad. And this holiday you'll see it in a very aggressive way.

The second point is, 87% of consumers gave us the top two box rating and would buy from GameStop again. And when we ask them why did you buy digital content at GameStop? In other words, the same question I started my comments with. Why would I buy a digital item in a store? It makes no sense. Well, what they told us is number one, the in store discovery is superior. That means our associates can advise you is this the kind of game I want? Is it the right game for my kids? Will I enjoy it, et cetera. In store discovery was superior.

Number two, I can pay with trade credits. Instead of having to pay full value, I can bring in an old game it becomes cheaper because GameStop buys my old games. And number three, I get PowerUp Rewards points for it. So we think that's a compelling offering and as DLC grows we'll be right in the middle of it. You'll see lots and lots of digital content growing. Competitors will imitate it, it's a difficult thing to reproduce in store, in the in store experience, so we think we've got a good head start on that.

Mark-Andre Saucier-Nadeau: One other question we ask all of our companies about capital location. And as you consider it, and obviously you've been consistently buying back a significant portion of your shares. And we were -- if you could prioritize among the different users of cash that would be helpful.

Rob Lloyd: I think as we look at the capital allocation plan going out for the next three or four years, we've got a stated target of improving our return on invested capital to 17% by the end of 2014. What we're looking at in doing that is a controlled store growth where it's appropriate. We're using our PowerUp Rewards data to identify where we should be opening stores. The capital expenditures that are necessary for us to continue to develop our PowerUp Rewards program and our digital initiatives. All of those decisions that we make, including acquisitions that will help with our digital businesses, all of those are sort of held against the backdrop of buying back stock because clearly buying back stock is the easiest way for us to drive that ROIC. So our balance is to make sure that the company is positioned well for the future, continuing to grow, and remains the source for gaming in the physical and digital gaming world, while understanding that driving shareholders.

Mark-Andre Saucier-Nadeau: Now we have some time if anybody in the audience had any questions. And obviously that will be also -- we'll also have time at the breakout right after.

Unidentified Participant: Can you tell us a little more about what you're doing with Apple products? Both new, used. Are you going to be selling used Apple products?

Paul Raines: Yes, interesting. A lot of press around that. It's been interesting the last few days. Back in -- let's see, back in April we launched trades of iDevices in Dallas. We have 64 stores in Dallas or so and we began taking trades on those iDevices, iPods, iPads, iTouches, et cetera, iPhones. Pretty successful, consumers like trading at GameStop. Our associates have a very high level of competency in taking trades. If you look at the universe of gadgets and electronics in the United States, our data said there's about $160 billion of sales of electronics in the US annually. Our estimates are that there's about $7 billion of iDevices in people's homes under couches, in cars, that aren't being used.

So we look at that data and we go it's an interesting currency that we could use to buy more games. And if you think about GameStop, remember that trade credits last year represented $1 billion in consumers' hands that we were able to use to fuel growth in the category. So for all of those reasons, iDevices are attractive.

We're pretty happy with our work in Dallas. We've now decided to roll that nationally, so you'll see us taking trades around the country on iDevices. We have a refurbishment center, we're able to refurbish those products and we're able to resell those products, similar to what our buy/sell/trade model is.

I don't want to say a lot more around that because it's a strategy that I've learned that imitation is the sincerest form of flattery. We tend to get flattered a lot these days in the gaming category, but you can trade your iDevices at GameStop going forward.

I will also say that if you think about us as a gaming company, we have a high degree of competence in gaming and the strategy around gaming has been console, non-console, mobile, casual, PC, you see us integrating gaming across-the-board, bridging customers together with the PowerUp Rewards program.

We also have a horizontal competency, which is in buy/sell/trade. So I think the important thing to remember it that we are going to use these trades to drive growth in gaming and to make our value proposition, which is already superior to anyone else in the market even better. So that's kind of what I would say about that.

Mark-Andre Saucier-Nadeau: We're going to have to end it here and this -- you an obviously go to the breakout session in the Palace room at 1025 where we'll continue the discussion. Thank you.

Paul Raines: Thank you.