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# EDITED TRANSCRIPT

## GME - GAMESTOP CORP. AT OPPENHEIMER INVESTOR MEETINGS AND MINI-CONFERENCE AT CES

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## CORPORATE PARTICIPANTS

**Paul Raines** *GameStop Corporation - CEO*

**Robert Lloyd** *GameStop Corporation - EVP, CFO*

**Matt Hodges** *GameStop Corporation - Divisional VP - IR*

## CONFERENCE CALL PARTICIPANTS

**Gary Balter** *Credit Suisse - Analyst*

## PRESENTATION

### Unidentified Participant

Okay, welcome to the GameStop Presentation. This presentation is being webcast so the Q&A will come over with a mic -- let's just do a quick intro. Last night I was having dinner with a client and the client mentioned that the companies -- the next three companies actually that we have speaking -- many people view as kind of the zombies from the Night of the Living Dead. We happen to have buys on two of those three companies because we see great value in those names, but of the three there's one company that we view as being extremely proactive in really dealing with the issues and being ahead of the game, and that's GameStop, and it's really lead by Paul Raines and Rob, and I'm going to turn it over to Paul, who has some opening remarks. Do you want to ---- ?

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### Paul Raines - GameStop Corporation - CEO

Thank you, Gary, and Zombies and Living Dead. You know we are a video game company so we're familiar with that language, so that's good. We are -- last year we were the first ones in the morning, and I think this year we're second, so thank you for being here. It's Vegas. Being the first speaker of the morning is always a challenge but we're thrilled to be here. Thank you for joining us. A couple things -- what I'd like to do is introduce our Chief Financial Officer, Rob Lloyd, to my right, and our Vice President of Investor Relations, Matt Hodges, to my left. We'll do a few remarks on what we saw, some color on the quarter, and then of course we'll open it up for Q&A.

I think, when we think about the quarter the first thing I would point out is we saw positive comps in the United States segment of the business -- slight positive -- 0.3 with comps, building on positive comps as well last year as well so we're pleased with that. Our international segment had negative 1.5 comps but overall negative 0.3 comps. So, I would say that the holiday was in some ways surprising to us, not where we thought it would be, but in most of our business segments we feel pretty good about what happened.

I'll give some color on that. We saw very strong software sales at 9.9% growth so I think if you look at video gaming and if you follow the NPD data, and if you only look at video gaming ten or 15 minutes every quarter, and you try to understand what's happening based on NPD I would tell you that that's a dangerous proposition. Our software growth has been dramatically different from the overall industry growth for several quarters now and I'm pleased to say in the fourth quarter our strong software growth indicates that we continue to gain share and that our initiatives and CRM and loads programs are working extremely well.

We saw weak hardware numbers. Hardware declined over 19% for the quarter and I think that's -- you know, when you're at the end of a console cycle -- if you've followed gaming for a while, it becomes tougher on the console hardware, particularly in our case. We called out on our release -- softness in the Wii hardware as well as in motion-based gaming. You know, last year we had a very strong launch of Kinect from Microsoft as well as the Sony Move and we're overlapping those and that's what created some of the decline in our hardware category, so we're clearly seeing the end of the console cycle -- or towards the end of the console cycle, and that affected us on the hardware side and the numbers are very different from what we saw with that strong growth in new software.

The pre-owned business which is fundamental to GameStop. As you know, we are a very flexible and resilient business model. The pre-owned business once again had a very strong quarter. We grew 3.5%, which puts us at about 7% year-to-date growth in pre-owned; we're very happy with



that. We told you in April at our investor meeting that we are repositioning the pre-owned business with our PowerUp Rewards program with some new marketing, with some very interesting stock balancing and in the face of increased big box competition, we're seeing a 7% year-to-date growth of the pre-owned business so we're very happy with that. We think that's very strong.

Digital sales continue to be a very, very solid category for us. Our digital sales grew 60% in the quarter. We called that in our release -- we took significant market share of Call of Duty Elite, DLC. As we've said to you probably now for four quarters -- maybe five quarters, we are dominant in the DLC at retail. We are finding new and creative ways to sell DLC digital content in our stores, on our platforms, on our websites, and that was proven once again during this holiday period.

A couple of other interesting points that I will make that were not in our release is that if you look at our kongregate.com business, our casual game portal, we grew our Kreds -- which is the in-game currency -- Kongregate is monetized two different ways -- advertising and in-game currency. Currency is by far the more difficult one to grow. We grew the in-game currency 200% during the holiday period at kongregate.com. We're very happy with that. That business continues to grow nicely. It is our casual game portal online.

The other business that I wanted to comment is our PC download business. As you know, we acquired impulsedriven.com about six months ago? We've now integrated that business with our website. You'll see us merchandise it as the GameStop PC download app. PC download revenues increased 200% at GameStop so we're very happy with what's going on in PC download as well.

So, the digital category in general -- category to us in April of last year in our investor update, and you've heard about on our calls is becoming very much in our wheelhouse. We think we're the dominant player on DLC and that's going well.

Of course we also called out -- we're gaining traction with our iDevice mobile pre-owned initiatives and the reason we wanted to call that out on our release -- and you may read in our release that trades on mobile, pre-owned devices represented 4% of our total trades and we've had some questions about that. It's not that clear apparently but when you think about our business, we take a lot of trades over the holiday period. Consumers bring us old games, old hardware consoles, old Playstations, et cetera, and they use that to pay for new gifts and new items. If you add up all of the trade currency we generated during this holiday period, the recently launched iDevice business represents 4% of that so it's a very meaningful number and as we scale forward you will see us be very active in scaling that business.

Today, we sell all of that pre-owned mobile product in 460 stores. You will see us expand that as the inventory permits and the fact that we can generate 4% of our trades from that category is very meaningful and I think we are becoming, or have become, a very significant player -- if not the biggest player in that whole re-commerce business, so that's pretty exciting to us.

We also wanted to point out that our tablet business was very strong in the 200 stores that we're in. We are only merchandising now four SKUs of tablets. They come pre-loaded with games as well as merchandised with a controller. We sold lots and lots of tablets. We've sold thousands of tablets through the holiday period and it's interesting to us because a lot -- there's a lot of opinion pieces that said we'd never sell one, and here we are now with some authority now in the tablet space, in only 200 stores, so we've got a lot of planning to do around how do we scale that and grow it forward. But, immersive gaming -- the question around whether we can bring immersive gaming to tablets, I think, has been answered in our minds and that's a resounding yes. Now the question is how fast can we scale that business? Who will the partners be? What will the profitability be? What will the models be, et cetera?

PowerUp Rewards. Very important. We've told you about PowerUp Rewards quite a bit. We now stand at 15.5 million members. There's no question now, if you look at holiday -- first of all, we believe we gained significant share at holiday in software. We don't have the numbers yet but based on our growth and what we're hearing from other competitors we think that our software growth and share growth continues. This is -- although we've gained share at year end for the last nine years, it's only been two years now where the holiday period had significant share gains for GameStop. Typically we will gain shares through the year and then give back some share during the holiday period as the promotions heat up. This is now two years in a row since we launched PowerUp Rewards where we continue to gain share at holiday, so I think we're executing what we told you we would execute in October of 2010 and that is using PowerUp Rewards to continue to gain share in the new software space, so we're very happy about that.



Some color on PowerUp Rewards -- maybe some new color that we haven't disclosed before. If we look at year end, our full-year members who have been members for PowerUp Rewards for a full year, shop us on average 12 times a year, which is a very interesting number. If you're a student of retail frequency and shop in multiple categories that's a very big number and I think it's way, way ahead of what our competitors see. We've also, of course, have said previously that our members spend three times what a non-member spends and that continues to bear out this holiday and a new number is that our members also trade two times what a non-member trades. Remember that trading old games is a very significant part of our (technical difficulty). We focus on it. We're seeing pretty significant trade activity from our members at two times the normal.

The game library, which we've told you about. We host a game library for every PowerUp Rewards member at poweruprewards.com. That game library now holds 218 million games, which is a very interesting asset. If you think about our ability to merchandise, launch new consoles as new consoles come into the market, launch new games -- one of the reasons you're seeing our share grow and be as dominant as it is, is because we're able to market to consumers based on what's in their game library. So, if you're a FIFA fan, or a Madden fan, or a Call of Duty, we are offering you opportunities with us that are based on what's in your game library, the games that you buy. And, the game library is a very important asset. 218 million games. That's a lot of games. That's aid of the mine for us. That's also a lot of games to offer to our publisher partners to use as launch information and segmentation of consumers.

Last year we made some noise in this meeting on our square footage front. If you recall, last year at this meeting we announced that we would be at net zero square footage growth and it got a lot of coverage, I think, because it was unexpected. I will remind all of you that we have created a very -- we think -- industry leading methodology for sales transfers and consolidations of stores. We use our PowerUp Rewards program to close stores and move consumers to a consolidated store base and the economics of that are very attractive.

I think we pointed out last year that if we can achieve a 40% to 60% sales transfer, that creates a 20--30% increase of margin contribution of the combined store base and we're very happy with our performance against those targets. We've exceeded those targets everywhere we've attempted, so this year it appears -- we're still wrapping up our numbers and Rob will have some detail on that -- but it appears that we will achieve our targets and exceed them in transfers and, in fact, have a 1% decline in retail square footage this year in the United States, and we expect that as a target for 2012, so I think we continue to see very good results from our consolidation and transfer process and think that we can achieve that 1% decline in square footage next year in the United States.

Another point on international and we'll give you a lot more on this at our March conference call, but as we've told you be on several calls we continue to see opportunities to consolidate back office operations in our international business to reduce costs, to bring smaller countries into a combined support center environment, et cetera, and create a lot of value out of that.

We've announced last week that we would be closing our Swedish store support center and consolidating that with our Irish store support center in Dublin, so we'll maintain distribution activities in Sweden but we'll be consolidating the store support center out of our Nordic region into our Irish region and creating a larger, northern-European region. So, I think that's a pretty good indicator of the kind of work we're doing. And, we'll have more color on that but it's a good indication of where we're at.

The last point I'll make -- and Rob will have details on that -- we're very pleased to be debt free. In this environment it doesn't get a lot of press, but we retired the last of our long--term debt. We are now one of seven retailers in the S&P 500 who are debt free. We are one of 24 -- roughly 24 companies in the S&P 500 who are debt free so I think that's very meaningful. GameStop, as a company, since January of 2010 has given back to shareholders about \$1.1 billion in stock and debt buybacks, which is very meaningful, leveraging our balance sheet and our cash position, et cetera, so in this environment we're happy to celebrate our debt--free status. So, with that I'll turn it over to Rob for some more color on his piece.

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

Thank you, and good morning. I guess to expand on it a little bit, we did pay down the last \$125 million of the senior notes in December, so we are debt free. We bought back \$45 million worth of shares during the holiday period so we're continuing on our buyback. We have about \$330 million left on the authorization that we announced in November so we look to continue to be active in the stock buyback market going forward and being debt free allows us greater flexibility in the ways in which we can return cash to shareholders so we continue to evaluate those different alternatives to us and we'll give you more information on that as we make decisions.



Paul talked about our square footage. We'll be down about 30 to 35 stores in the US for Fiscal 2011 and again, we're looking to be down 1% in Fiscal 2012 in the US, and we continue to evaluate what our options are in our international market to make sure that we're right sized in terms of our store portfolio and productivity, and our back office operations as well.

On the guidance front, Paul talked about the challenge with hardware during the quarter. Hardware, as you know, is a very low margin business for us. We're pleased to see that we had growth in the used business, which is our highest margin category, as well as growth in our digital business which is very margin positive for us as well. So, the shift in the mix is what allows us to maintain our guidance range. I think with that, I'll open it up for questions.

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## QUESTIONS AND ANSWERS

### Unidentified Participant

Your used margins used to be in the 48% to 49% range. I know you've integrated with the PowerUp Rewards. Is that -- is it structurally more in that gross margin range where we are today, or do you actually see us getting back to where we were a few years ago?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

The question was about the range of our used margins, which the question was that they used to be in the 48% to 49% range -- can we get back to that? We have, for the past couple of years now, been talking about a range of 46% to 49%. It tends to move quarterly, depending upon how promotional we are. I think one of the things to note with respect to the growth that we had in this holiday period in used was that we were able to make significant improvement in the margin rate during this quarter as well. So, last year, in the fourth quarter we had a 44.2% margin rate and you'll see improvement on that, and I think we're comfortable saying that the range continues to be that 46% to 49%.

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### Unidentified Participant

What (technical difficulty) on that and then I have one other question. So, on the used is -- with more competitors entering the space for used -- in the used business -- does that bid up the product and does that have a structural effect on the gross margin rate for used?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

The question was about whether or not the competition that has come into the used marketplace has bid up the cost of the product and had an impact on the margin rate and I think the answer would be that we watched the largest competitor in the used space in the US very closely. We monitor how our stores are performing relative to their stores and we're pleased with the results in those stores and, in fact, in many cases they -- we're doing better in those stores than we are in some of the other stores in our chain. We don't see that there has been an impact on the margin range.

What impact we have seen in margin in used in recent months -- and this is going back primarily to the third quarter, was driving by GameStop as an effort to get trades into the store. In the environment back in September, and October, and November where you had multiple, big titles launching week in and week out, we wanted to make sure that we were providing our customers with value on the trade-ins in order to get them into the store to buy the next launch that was coming out and so that decision on GameStop's part had an impact -- a very slight impact on the margin rate we saw in the third quarter.

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### Unidentified Participant

Okay. And then the last --



**Paul Raines** - GameStop Corporation - CEO

Let me add something to that on the used business. I think it's important for investors to understand that as we have faced experimentations by competitors through the last probably four years, execution in store by our competitors is a significant challenge and what we find is that the sell side pieces that are out there tend to focus on pricing, and pricing is interesting. It's important, but in this business there's two pieces that are far more important. One of those is consumer awareness and one of the things we're finding as competitors have entered and exited the space it creates more consumer awareness for us, not less, so our stores tend to do better as consumers become aware of buy-sell trade.

And, the second piece is none of our competitors are able to leverage something like PowerUp Rewards so often the pricing and margin calculations that are done in some the opinion pieces don't include the impact of our unique PowerUp promotions, so on both of those fronts we find that we are really -- we're seeing a lot of benefit from our model on that.

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**Unidentified Participant**

Great, and then the last question was just the new release schedule for 2012 -- how do you see that setting up? I mean, are we going to get another Call of Duty and one those hot games?

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**Paul Raines** - GameStop Corporation - CEO

Matt's our expert here on new titles for 2012 so we'll let --

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**Matt Hodges** - GameStop Corporation - Divisional VP - IR

Well, in the first quarter you have the Vita launch as far as hardware and later in the year you'll have the Wii U but first quarter titles include Soul Caliber 5, Twisted Metal, Free Fighter 10, the new Ghost Recon, Prototype 2 and the next Resident Evil. As far as the remainder of the year, it's still early, but Mass Effect 3, Max Pain 3, Bioshock Infinite, Halo 4 and possibly GTA 5.

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**Paul Raines** - GameStop Corporation - CEO

One think to keep -- you'll see us communicate this more in our quarterly calls is I think investors in Wii have to start watching not only physical title launches but also launches of DLC -- DLC is becoming a very significant part of what we do. Downloadable content -- the DLC calendar in some causes will ride along with the physical consoles and in other cases it'll be different so DLC will be an important one to be on top of what the titles are and you'll hear us talk more about that, and then also you're going to begin to see launches of mobile titles on tablets which I think, as we get through the back half of this year, understanding the launch calendar of mobile titles will also be important so I think one of the things we're going to do is start to communicate that a little better as we go through this year.

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**Unidentified Participant**

Throughout the presentation you referred to the end of the console cycle. Is there reason to think that a new one may be beginning? What does an end mean, other than it's not going well as opposed to a new one starting?

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**Paul Raines** - GameStop Corporation - CEO

The question was, what is the end of a console cycle mean? I think what we're saying is that as we get into longer time horizons of this console -- the install base has grown. You're seeing the software growth but the devices and the consoles have seen a couple of things happen. One is price

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point pressure. Prices have come down. Promotional activity will continue on those and the innovation level of what those consoles bring to the consumer relative to the marketplace is less differentiated. As far as the end of the console cycle, we really don't have any data that you don't have.

Obviously there's tons of discussion and rumors out there, and we know that the Wii U is coming. It's been announced for this holiday and we're anticipating that pretty early we've got a Sony product with Vita coming up in February that we're pretty excited about it, but other than that we don't have a lot of data. Rob, anything you want to add to that?

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#### Unidentified Participant

Just a couple of questions guys. I know it's still early days, but on the iDevice trade in can you just give us some sense of what the typical value is of the amount? You know, people are trading in devices across a pretty broad spectrum. How much are they walking away with and secondly, have you got a sense of what the typical behavior is? Do they tend to use those credits immediately? Do they apply where -- do they put them in the bank? Any early data on that, and then I have a quick follow-up.

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#### Paul Raines - GameStop Corporation - CEO

Sure, Bill. Values are more, on average, more than our typical video game product. I've got a mother-in-law who's in the market for a new tablet and I'm trying to sell her on an Asus Prime in our stores and she wants to trade her old iPad, and that's \$180 to \$230-ish kind of trade value, depending on the memory and so forth, but it varies on the phone type, the iPod type. We're also trading Android tablets that we're selling and trade values are in the hundreds of dollars so what's interesting -- I guess one of the interesting wrinkles around this trade of electronics business is that the trade values are significantly higher than what we're accustomed to in the video game business, which is very exciting to us. We think that's important.

As far as consumer behavior, I think that what is very interesting to us is that it's behaving fairly similar to what we've seen in video games. There's no question that a consumer under pressure loves having the opportunity to bring in old electronics for trade currency and we're seeing that behaviors come in. We're seeing consumers bring trades of electronics towards new video game product as well as new tablet product and we're seeing an upgrade cycle starting to happen. It's interesting. We were merchandised this holiday four tablets -- a Samsung Galaxy product, an Acer Iconia, and then two Asus SKUs -- an Asus Transformer and an Asus Prime tablet.

And, even in the Asus product where we had two launch basically in the span of a few weeks, we saw customers buy the Transformer and then trade it at GameStop to go buy the upgraded Asus Prime, so we're seeing tremendous productivity from the upgrade cycle. As manufacturers launch upgraded handsets and tablets we believe we will continue to see upgrade activity as people bring us their old products so they can buy the new product -- either at GameStop or somewhere else.

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#### Unidentified Participant

And then, just the follow-up. You mentioned, Paul, I think that you were I close to 500 stores with that product already and as you build inventory you'll expand the beach of the penetration. My question is, has the sale of those traded-in products -- you know, the sales that you've subsequently gotten -- started to matter and I guess, maybe if you could give us a sense of where you think the tipping point is for the recognition of this initiative to really hit the mass market. Is it once you're in a couple thousand stores, or give us some sense of when you think people who aren't currently aware of this might suddenly become aware, and then just a final question -- how many of those 24 companies that are debt free pay dividends? If you could just tell us.

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#### Paul Raines - GameStop Corporation - CEO

How many of the 24 what?



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**Unidentified Participant**

Of the 24 companies in the S&P that are debt free, how many of them pay dividends? I figured you probably knew that.

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**Paul Raines** - GameStop Corporation - CEO

I think the research is still in progress on that one. I don't have it.

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**Unidentified Participant**

Okay.

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**Paul Raines** - GameStop Corporation - CEO

Okay, so awareness of the iDevices. I'll tell you -- so a few things. Remember that there are \$7 billion worth of iDevices in peoples' homes in North America today -- in drawers, underneath the couch, et cetera. Add to that Android handsets and there's a very large market of old electronic devices out there. Don't forget that the consumer electronics category is very, very large and our ability to process trades and give consumers currency is going to be very differentiated and very significant to any competitor in this space.

Awareness -- in the 460 stores that we're live, awareness is becoming higher. Remember that in our buy--sell trade video game business we only have 40% top of mind awareness, which is incredible. We've been at this for 15 -- Rob's been at it for 15 years. GameStop's been at it for 15 years and yet we still only have 40% awareness of buy--sell trade for video games so as we continue to build -- and if you were in our stores this week, you saw a pretty interesting, massive takeover.

You're hearing radio in the top, I think 35 MSAs right now. The awareness is still building. In markets where we have awareness we see that our offering is extremely positive and differentiated compared to sending your used product into an online marketplace, et cetera. So, that's going very well. We think we can do a lot of things to build that. We also think that adding products, categories, SKUs to that will create more currency for gaming so it's been very positive so far. The second question was the dividend question, right?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

I think Bill probably knows the answer to that question. As I said, we're continuing to evaluate our options and being debt free gives us greater flexibility.

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**Unidentified Participant**

Hi, a couple of questions. I think we've touched on many of them but could you just understand what are the most important initiatives you have coming, for the coming year, and really within that if you could touch on what we should expect from (inaudible - microphone inaccessible) and DVDs -- continued re--invigoration of the trade in (inaudible - microphone inaccessible) plus whatever else you think is important as well, please.

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**Paul Raines** - GameStop Corporation - CEO

Great. So the question was, can you tell us what the most important initiatives you have going forward are? Because, I'm sure, we've got a lot going on so there's been a lot of discussion around some initiatives. The second was, give us some color on Spawn, which is our streaming technology company that we acquired last year in the spring and then third was, what else are you going to do around used?



So, I would say if you look at GameStop -- and, again, I was talking to some media folks yesterday after our release and this individual had a very interesting comment. He said, you know, two and a half years ago I used to follow you guys and it was a very easy story to tell -- brick and mortar stores. You launch games. You sell hardware. Now, I've been away from the story. Now, this newspaper person was back in the story and said, wow. You've got a lot going on. You're a very complex story. And, I think we are.

So, it's important to understand what's going on with us. Certainly we continue to drive Best-in-Class market share in new video game launches and consoles, and as new technologies arrive we will be the market share leader on the launches of new technologies. We were on 3DS. We were -- you know, three or four consoles, handheld wise, so we will continue to do that. You will see some very significant initiatives around our digital business. The first of that is we are selling DL in store and online on our platforms. We've called out numbers on that. That's a significant business.

It will be in the hundreds of millions of dollars by 2014. That's going well. It's in our wheelhouse. We're launching DLC now -- like Call of Duty Elite, like the Years of War season pass. You'll see that we continue to launch DLC and I would tell you that if you sat in the meetings with publishers you'd be excited about the amount of DLC hitting the market. And, you know, some investors will say, why would I buy digital content in a store. It makes no sense. I should buy it on line, et cetera.

What you're missing, if you think that, is number one, the discovery of the digital content online is difficult online. GameStop does an exceedingly good job of educating consumers. We launch products with DLC in them very successfully. The second point is we bring trade currency to it where last year we put \$1 billion of trade credits in consumers' hands by buying their old products back and with our electronics business that number is only going to get bigger. So, those two things you can't do online.

Third, you're a member of PowerUp Rewards and you earn points at GameStop that you can't earn online so our DLC business is very exciting. It's in our wheelhouse. It's in the -- I would say it's top of mind with publishers now, which is very exciting, so DLC I would say is the number one I would call out to investors as a very significant digital initiative. Then come a series of other activities -- kongregate.com is our casual gaming portal. We disclosed in the third quarter call it's up 40% year-over-year based on traffic and comScore data.

Very successful. That's continuing to go well. We've integrated Impulse, which is our PC download platform, into gamestop.com. I think I said earlier we grew that 200%. Remember that the PC download business is a business that is incremental to us. We were not really significantly in that business because we didn't have the technology. We were using white-label providers in that, so Impulse is very important to us this year as we go forward.

And then Spawn Labs -- and in Spawn we have six of our data centers up and live. There are six cities in the United States that have a Spawn data center in them and we're choosing participants in our national data rollout going forward, so the Spawn technology is a great consumer experience. I think we demoed it at our Investor Day last year. It's going to be a very significant part of what we do, so that's going well. Those are the digital initiatives in a nutshell in addition to what we're doing at gamestop.com. I would add that PowerUp Rewards continues to grow. That loyalty program was launched nationally in October of 2010 and in only -- 14 months now -- is up to 15.5 million consumers. We're starting to get a lot of recognition in the media and in the loyalty CRM space as one of the leading -- if not the leading stickiest program in retail because it's very unique. So, PowerUp Rewards is a big part of what we're doing.

And then I would add that the tablet business -- we are in 200 stores with tablets today. We're merchandising tablets with pre-loaded games. Our sell through is very good based on what we're doing with pre-loaded games. We're going to -- we haven't talked about this much -- we're going to host our first tablet game developer conference in February so we're beginning to attract significant traffic of tablet game developers, and tablet developers are different from the console developers you're used to.

It's a different crowd, but that's going well, and of course the buy-sell trade on the electronics and mobile devices that we've discussed earlier today, and iDevices, so a lot of things going on but I think the most of -- we're pretty bullish on our ability to continue to grow the games business and extend it into other areas. We'll have a lot of color in the March call on most of this stuff.

Used business. Used business continues to be driven by PowerUp Rewards. I think, if you remember last year, we talked about reorganizing GameStop. We brought some new leadership to the used business. We're very excited. If you go in store you'll see that we are merchandising used



with a different approach (technical difficulty) -- the top 25 piece. We'll do some things this year to continue to merchandise it differently. PowerUp Rewards is becoming a very effective way to market to market games based consumers' game libraries and you'll see more of that from us this year.

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**Unidentified Participant**

A couple of questions -- one on your physical store program, so you said you would shrink 1% net this year. Can you flush that out a little with the gross numbers because presumably you're closing more than 1% of the stores and you're finding a handful -- I don't know how many -- opportunities where you would just call it a new store, and perhaps 1% closing understates what you might call the re-invigoration of the physical store base?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

Are you talking about 2011 or 2012, specifically.

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**Unidentified Participant**

Oh, I'm more interested in 2012, but --

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

Okay. Well, let me recap 2011 briefly. At the beginning of the year we said that we would open approximately 200 stores in the US and close 200. We'll end the year having opened less than 200 and closed slightly more than 200, so net--net we'll be down about 30--35, as I said earlier. In 2012, I think that you can expect openings to go down. The important thing to remember about us closing stores is that we don't have that many stores that lose money so you could close 200 and to close stores in 2012 you're digging into -- way into a profitable store base, so the key for us is to use the PowerUp Rewards data to understand where we can close those stores and transfer the sales to achieve the profitability results that we want. So, as a result of that I would expect that we would close slightly fewer stores next year than we did in 2011.

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**Unidentified Participant**

Right. I mean, it's getting pretty specific, but you started it with some very specific metric on what you can get and the kind of store closing where you've decided kind of, "I'm going to operate this on a two--for--one basis. I think that the one store is going to be better than the two stores, and in this case I'm looking to retain 40--60% of the sales and increase the combined contribution 20% to 30%. Is that what I believe I heard? And so out of the 200 closing, not all of those were really in that model. Some of them were horrible stores, that the lease was up or just average stores -- I mean they're not all in that kind of model, and then you have quite a few stores but you might have a few of the openings that are just boom -- brand new business. Can you help us slice and dice that a little bit?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

On the closers, I think it may be a little unfair to say that they're not all kind of the same. We tend to look at it that way. I mean, clearly there are some that we're losing money but we measure the success of this transfer process on the total -- the totality of that store base. We slice it by distance.

We slice it by closing one store in a mall where you have two stores; closing a store in a mall and moving a business to the strip outside it; closing the strip and moving it a half mile down the road, a mile down the road, two miles down the road -- so we do slice and dice the data extensively, so that's on the closure side. On the store opening side, we're using the PowerUp Rewards data to tell us where it is that we should open stores -- where we see the consumers are willing to drive ten to 15 miles to get to a store. If we open a store in the market that has 700 or so PowerUp



Reward members making a long drive, we can increase the frequency of shop of those PowerUp Reward members and drive incremental PowerUp Reward members in that location, so that's how it is that we're finding the locations for our new stores.

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**Unidentified Participant**

Right. Right. That's very helpful, but I think you just meant to say that it would, in fact, be fair to take that 40% to 60%, 20% to 30% -- crunching numbers against the totality of the 200 closings?

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**Robert Lloyd** - *GameStop Corporation - EVP, CFO*

That would be fair to do -- yes.

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**Unidentified Participant**

Okay. And then just totally separately, can you talk about the potential risks of getting into a quite different used business model -- or collection of used business model?

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**Paul Raines** - *GameStop Corporation - CEO*

Yes, same -- the electronics.

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**Unidentified Participant**

Yes.

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**Paul Raines** - *GameStop Corporation - CEO*

Let me make a point on the -- because I think it's important for investors and for retailers to understand this deeply. And what we're doing is very different. You know, it's hard for retailers to close stores. I've been at this a while and closing retail stores is hard to do. A lot of reasons -- number one, your leases -- sometimes if you own the property, you're in that property. You own it forever, or you're in a long-term lease, or you have a high cost exit. GameStop has a very flexible lease portfolio -- typically five year leases with three year kickouts generally. We have a very flexible portfolio which makes it easy. Number two, we are in a significant amount of malls that overlap strip centers because of the acquisition in 2007 --

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**Robert Lloyd** - *GameStop Corporation - EVP, CFO*

2005.

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**Paul Raines** - *GameStop Corporation - CEO*

Oh, 2005? GameStop acquired Electronics Boutique so in many cases we have lots of markets where we acquired an EB store that was in a mall and we have a strip center next to it, so we've got a real opportunity to continue to consolidate as we shake through that overlap. The third point is, when you close a retail store -- back in the old days -- and I'll call the old days maybe 2008, right? Back in the old days you'd close a store and you never really knew where the customers went. I can -- in my history I've been in big boxes, small boxes -- you name it -- you close the store and you hope the consumers find your new store.



You put up a map in the old store and you hope they find it and it's really a dangerous thing. Many retailers will close stores and the consumers will just go to the next available store in the strip center or in the mall, which may or may not be your brand. So, what we've done is very unique in that we know exactly where the consumer -- and when we talk about 40% to 60% driving 20% to 30% -- and we'll update that on our March call -- that's the amount of customers who go to the adjacent store. The adjacent store that we defined.

But we also have data that tells us there's secondary and tertiary shopping that goes on. Many customers don't ever go to the adjacent store and wind up in the store nearest to their house, or school, or job place. Some customers -- you know, you close the store they're used to shopping. They'll go, well, I'll just shop at the one on my way to school. And so your ability to build that relationship with that customer -- even if the don't go to the adjacent store -- your ability to find them, give them value and keep them out -- is a very big piece of this transfer process. So, I think it's important -- it's an unfolding story and our real estate team is really blazing new trails on this one, so I wanted to make that point.

The risks of extending buy--sell trade. The question was, what are the risks of extending buy--sell categories, electronics, et cetera? We've done a lot of consumer work around this subject and one of the things we've observed as competitors make experiments around buy--sell trade of video games -- and, as you know, there's been lots of experimentation and candidly failures by competitors to enter buy--sell trades and one of the reasons is many people focus on pricing. They focus on margins and they focus maybe on in--store presentation, but you never see a lot of focus on execution and associate knowledge and training and in our case we're extremely good at buy--sell trade because of the associate DNA.

Our POS systems are designed. Our supply chain is designed to balance, so what has happened is we've been seeing customers -- and we saw this beginning probably a couple of years ago -- we've been seeing customers bringing us electronics products to our stores going, will you take this from me? Will you buy this from me? You know, you buy PS3s and Xboxes -- why won't you buy my phone? And, as we did the consumer work we saw that consumers saw us as an efficient, easy transaction -- fast in and out way to trade gaming products.

So, the risk of buy--sell trade in other categories is clearly over--extending yourself, putting a burden on the store that the store can't handle, but we see that that risk is out there beyond some of the stuff we're doing. The adjacency of a handset, a tablet and an iPod in the store -- we're finding it fits right in our wheelhouse. In fact, in many ways it's an easier trade because, you know, in video gaming there's thousands of SKUs. So, if you bring in Tekken 4 -- right?

Tekken 4 was released probably in -- I don't know -- 2001 or something, and we have to look up Tekken 4 and it's complex, and there's 6,000 or 7,000 SKUs in the system. In electronics, it's a much more reduced SKU base so number one is it's a smaller SKU base. That makes it easier.

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**Unidentified Participant**

(inaudible question - microphone inaccessible)

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**Paul Raines** - GameStop Corporation - CEO

It is but it's not that big if we limit it and manage it to the most important SKUs. The question was it's a bigger hardware SKU base -- what we're trying to do is manage the most popular SKUs and keep them limited. But, I will say our job is to create training and execution in store that continues to be compelling. Customers do not want to come in and spend 15 minutes finding an associate in the store. They don't want to go spend another ten minutes standing in a line to register and they don't want to spend another 15 minutes going to the service desk to figure out -- so we have to continue to be a superior experience and if we can do that I think we manage the risk.

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**Unidentified Participant**

(inaudible question - microphone inaccessible)



**Paul Raines** - GameStop Corporation - CEO

We haven't disclosed a lot of the metrics around the program but we will give it a lot more color in March. We're learning a lot about the volume and the transactions. I would just say that even in our heaviest volume trade stores -- and you can imagine if electronics trades is 4% of our total trades for holiday -- by the way, that's 4% of everything we traded in our stores -- all 4,600 US stores -- all of the games and consoles that we traded, another 4% of trades was electronics, so that's a very large volume, but even in the highest volume stores it's been extremely manageable and we haven't had much disruption. We're also doing a lot of work with POS. We're putting in a lot of technology to manage that so we'll have a lot more color for you in March on that.

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**Unidentified Participant**

Just following up on -- just following up (inaudible - microphone inaccessible) on it -- you mentioned 4% of trade and how it compared to consumer electronics -- that's actually a great result yet it's very early -- the penetration and opportunity. When you look at 2012 -- what do you think are reasonable ranges for trades, volume mix, as well as percentage of used sales that are for electronics and then only the margin profile isn't higher or lower than the traditional (inaudible - microphone inaccessible)?

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**Paul Raines** - GameStop Corporation - CEO

Yes, Rob's not going to want me to say a lot of numbers on that.

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

I should have.

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**Paul Raines** - GameStop Corporation - CEO

I will tell you this. I'm known for provoking a crisis in our office and I'm provoking a crisis on that very question right now with our team. Surely when you've got 4% trades in a business that you launched and seriously launched -- and really seriously launched it in September -- because we were piloting in Dallas in May and June but the national rollout of trades was in September and when you're able to achieve a 4% trade level, obviously we get pretty excited about that.

The consumer awareness is extremely low on what we're doing, yet there's lots of ad and media spend going into the category for other resellers who are taking trades online, et cetera, so we think that's going to grow. We haven't really disclosed a lot of this, but I would say that you can expect this to be a national program, generally and candidly probably an international program. It's one of our top priorities for the year. The second question -- what was the second question? Oh, I'll let Ron take the margin question.

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

It's pretty early on the margin side. It's still shaking out but we expect that it will shake out in between our overall margin rate and our used margin rate, and it is categorized in the other category for us.

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**Paul Raines** - GameStop Corporation - CEO

You know, we've answered a lot of questions for ourselves at holiday and electronics, both in tablets and in iDevices, and in mobile trades. I think there was a question internally around electronics because if you look at all the players who are on the online marketplaces it feels -- it felt like a liquidation business and it's a high velocity, high turn business where the game was get the trade, move it quickly.



I think we've satisfied ourselves that our retail store brings a lot to this business and it brings an adjacent consumer experience and we bring a customer transaction -- frictionless -- that has value, so I would say it's a very different business on the sale side from what we've thought it would be. We've been presently surprised, and we've exceeded what we thought it would be on the trade side.

Anybody who's in buy--sell trade and, again, this is what our competitors often -- not often -- always miss. It's not really about the sales of the buy--sell trade product. The sales tend to happen because you've got a value and you've got an opening price point. The difficulty is always in getting the inventory from the consumer because your supplier is the consumer and that's where the action is and we've been very pleased. I mean, the fact that we could generate 4% trades for us has been very exciting.

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**Unidentified Participant**

I have a three part digital question. Can you give us what you think your share is in DLC versus physical software -- so, where you rank in both? Can you update us on the tax rates of DLC for used software? I think they were running similar to new software or somewhere in the vicinity, and any color on the impulse business with new launches?

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**Paul Raines** - GameStop Corporation - CEO

Sure, see there is not a lot of share data available. We have some -- we've got a market model that's pretty -- if you just focus on Call of Duty Elite and if you just look at what we've sold and what has been disclosed -- we disclosed we sold --

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

600,000.

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**Paul Raines** - GameStop Corporation - CEO

600,000 units of Call of Duty Elite and I think Activision disclosed they sold 1 million?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

One million.

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**Paul Raines** - GameStop Corporation - CEO

A million units of it in the first -- I don't remember the period.

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

In a couple weeks after launch.

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**Paul Raines** - GameStop Corporation - CEO

In a couple weeks after launch -- so that says we sold 600,000 out of a million. Remember that on DLC we really don't have a retail competitor, per se. You know, Xbox live sells DLC. PlayStation Network sells DLC and they are our partners in that business. What's happened is, is we've made that pie bigger. And I have to say, this is what we said would happen two and a half years ago -- we took what was a nichey, leading edge, early adopter

business called Downloadable Digital Content and we've scaled it to the masses. You know, at Christmas -- I mean, we had lots and lots of moms and dads, and grandparents buying digital content at Christmas at GameStop. And, that's what we do.

We bring those digital businesses to scale. So, I think you can expect that our share will continue to be fairly dominant. I don't know if it will be as dominant as what happened on our lead but we think we have a unique model to sell DLC -- at launch, providing trade currency and marketing with PowerUp Rewards. Remember that if you're a PowerUp Rewards member we often pre--sell you the DLC and send you the code to your encrypted digital locker at your poweruprewards.com account. So, we taken the other retailers completely out of that business, so we like our odds on DLC.

Candidly, the biggest challenge for us on DLC is selling publishers on building more of it -- developing more digital content. That's what we want from publishers, so I think that's going well. Your second question was the tax rate. Rob, I don't think we've disclosed anything on the tax rates, right, of DLC?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

I think what we've disclosed is that they're low double digits.

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**Unidentified Participant**

Is that for used and new?

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**Paul Raines** - GameStop Corporation - CEO

Similar for used and new, which is a great point, (technical difficulty). You know, the used business attaches DLC as well as the new, which is very exciting. I mean, if you think about the model that's unfolding around DLC -- what publishers are doing, and I would have to recognize Activision as the leading thinker around this -- they've created a model that says, I sell you the physical game. That game becomes almost like back in the day, -- I was in IT consulting for a few years -- we might call that a thin client, right? You've got that game on your Xbox or PS3.

Now we're selling you digital content that downloads but you have to have to have the physical game and they're launching digital content every 30, 60, 90 days, so what's happening to the consumer is they play the game, then they trade the game at GameStop. 60 to 90 days later, here's comes a new digital map pack -- Oh, it's cool, I want to play it -- they have to go get another game because they need that thin client. So, they go back to GameStop. Frequently they buy a used game, versus a new, and they download the content, then they trade that again and they go back, so you've got this very interesting upgrade cycle happening on the DLC site that's attaching the use of news.

Impulse, you asked about. Good story. I met with -- we just had our business review. Tony Bartel our company President, and Steve Nicks, who came over from id Software to run Impulse. We just had our business review last week and it's top of mind. We're very excited about what's going on in Impulse. You know, we've spent a lot of time integrating Impulse technology into our website.

If you go to our site, you can download the PC download app to your PC, which is a client that facilitates downloads. You can also download through our website. We're merchandising lots and lots of titles. I think the title count is up in the 1,400s -- is the amount of titles we're selling. We're very pleased with big launches like you saw us launch Star Wars with EA, very successfully through PC downloads so I think Impulse -- we're very pleased on the technology side.

Where the work needs to be done now is integrating that into our store and creating a destination for PC download. If you go to our stores we long ago stopped being a major in the PC software business. We have a gondola in our stores. We carry a few titles but we really weren't an active player and that's what we were trying to address when we acquired Impulse.



So, what you're seeing us do now is now that we have a technology that we can use -- we were always using a white-label product -- now we have a real technology that's our technology for PC downloads. You're seeing us now merchandise in store with all of those unique skills that we have -- we source unique content, weapons levels from publishers. We launch with special features in the game. We provide trade credits to buy it and we use PowerUp points, so that's really where the action is, is on the in store merchandising of it and we're pretty happy with what's going on so far in Impulse.

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### Unidentified Participant

Yes, real quickly. You mentioned new consoles earlier. The current generation of Xbox and PS3 is still very advanced in terms of graphics and peripherals. In your opinion what should the next generation of those consoles offer consumers that they don't today and especially in the context of downloadable content as a way this business has changed over the last five to six years since top of the launch?

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### Paul Raines - GameStop Corporation - CEO

That's a wish list, man. That's like I'm a kid in a candy store on that. What would I like to see in the next console? Certainly we don't -- let me just point out -- we have no knowledge of what's going on with the next console cycle, other than what you hear, too, but if I had a wish list -- and we're kind of students of gaming. You know, I spend -- my wife lets me budget four hours of game play every week whether I need it or not, and I spend a fair amount of time on this. What would we like to see? There's no question the next -- the technologies that are interesting to us today would be tethered tablets with consoles is a very interesting possibility.

When you think about what we saw at E3 last year from Nintendo -- that controller -- that tablet as controller on that Wii U -- that's a very exciting idea because it opens up possibilities. Number one, to use a different kind of controller and number two, I take the game play with me so if I'm not home and the console's home, I take that controller with me and I can play downsized versions of the games. That's a very hot concept and I think you're going to see the manufacturers build that out.

I mean, I'm carrying -- my technology of choice these days is an Asus Prime tablet that we're selling at GameStop pre-loaded with five games and we've created -- our engineers built a controller that is a Blue Tooth tether for a tablet and so I'm travelling and I'm playing games. I'm playing Madden and Shadow Gun on my tablet with a controller, so the whole concept of tablet as console is a big idea and I think there's lots and lots of activity going on around that and I think, you know, the Sonys of the world and Nintendos will do a lot with that. So, that's number one.

I think number two -- streaming is a big idea. We bought this technology company called Spawn Labs and we're doing some very interesting -- we can stream console games now. The technology works great. Now we're in the process of the commercial agreements. How do we merchandise it? How do we go to market? But there's no question to us that streaming will play a role. It will not replace console gaming. I mean, I think that's sort of the old thinking around that but what it does it augments and it takes your console IP to non-console space -- office, travel, et cetera. So, that's number two.

I think number three is integration with social networks. That's kind of an obvious one. You'll see that happen over the place. I think number four is integration with mobile. And by that I mean not just hand tablets and sets as well, the ability to manage your game play. I'm a big fan of Uncharted 3 and so I spent about -- what was it -- I think it was about 13 to 14 hours to get through Uncharted 3. I play it on normal. Don't play it on hard because it's tough. But, if I could manage the game play when I'm away from my console through my cell phone -- hopefully through a premium, refurbished GameStop phone -- but I think integration with handsets is an interesting idea and it's going to be interesting to see who gets there first -- the console manufacturer or the handset.

That's four. This whole integration with mobile is happening at a very fast rate of speed. If you saw the calls we get from tablet game developers and mobile game developers -- there's a tremendous amount of entrepreneurial energy right now in that space and it's not just West Coast. It's Europe, it's eastern Europe, it's all over. So, we're going to see some breakout hits come through there and I think those have to be integrated into the new console.



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**Unidentified Participant**

In terms of used games -- it seems like Best Buy have become a lot more quick in terms of trading process and in terms of the total offerings and (inaudible - microphone inaccessible).

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**Paul Raines** - GameStop Corporation - CEO

I'm sorry, you said Best Buy is becoming a lot more what?

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**Unidentified Participant**

For used games.

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**Paul Raines** - GameStop Corporation - CEO

They're becoming a lot more what, though?

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**Unidentified Participant**

Quicker in the trade--in process and also in terms of like the actual titles that they offer. I guess, you've got the advantage in terms of prices -- selling prices -- I guess it comes from (inaudible) of already thinking you have that advantage and what would be the best way to deal with that competition from Best Buy?

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**Paul Raines** - GameStop Corporation - CEO

Yes, I would tell you that's kind of old thinking. You know, two years ago we were at E3 -- two years ago -- and they announced entry into the used games and our shares took a beating, et cetera, and great fanfare, et cetera. I would challenge you on they're quicker at the process because we survey all our competitors weekly and I would tell you quicker, and they're getting slower.

We have a lot of data around the transaction times, the percent of the time that they're department is staffed, the number of SKUs available, how long it takes to process a trade, how long I wait in two lines at the cashier -- in other words, execution I would tell you is spot -- that's the point I made earlier is I think investors often -- if you don't really understand it investors often go to the pricing mechanism, because that's an easy one to gauge but they don't look at the execution. I would tell you that execution is really not getting better.

The second point is the scale of what we do is poorly understood. We disclosed in the first quarter call that we took -- how many trades in the first quarter?

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**Robert Lloyd** - GameStop Corporation - EVP, CFO

30 million.

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**Paul Raines** - GameStop Corporation - CEO

Did you say 30 million with an M?



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**Robert Lloyd** - GameStop Corporation - EVP, CFO

Yes.

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**Paul Raines** - GameStop Corporation - CEO

Man, that's more in trades than I thought we took in the first quarter. We took 30 million trades in the first quarter of 2011. Our competitors are in the trying to get to a few hundred thousand. So, the scale of what we do is not well understood, so I would challenge you to spend some time on execution and then on the scale of what they're doing and what we're doing. Lastly, pricing -- yes, everyone wants to look at pricing and trade pricing. I think we're -- our data tells us -- and I would say our growth tells us that we are -- we continue to be the best value profit.

I think competitors can imitate our pricing -- and, by the way, all of them are using bot shopping services that basically shop our site and try to imitate our pricing. What they don't understand is, our pricing is based on our inventory levels and our sell through. It's a very dangerous thing to copy GameStop's price points on used because GameStop's price points are based on very sophisticated algorithms around titles. If we know that a sports event -- we had the NCAA championship last night, right? Any Alabama fans in here? Congratulations.

You all just -- the rich keep getting richer, man. I love LSU, that's why it's tough. But so last night we had an NCAA football game. How many of our competitors do you think today are looking hard at their inventory of used NCAA football games from EA and how many of them understand that after the national championship there's a pricing dynamic that will happen and an inventory flow that will change?

Most of them will not understand that. What they'll do is they'll wait for GameStop to do something and change, so I would challenge you on the pricing dynamic. You asked how long do we have a lead, et cetera? I think we have a lead forever. I think I disclosed earlier -- our PowerUp Rewards customers are trading at two times non--members. Our members are shopping -- are spending 3x to 4x what non--members are spending. We've focused PowerUp Rewards on used games. One of the reasons we're accelerating on used is because we have 15.5 million members who are focused, so I think that we are always wary of competitors. We are always respectful of very large companies that do big things but I think we're going to be a -- going to continue to be a very tough competitor on that front.

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**Gary Balter** - Credit Suisse - Analyst

We have time for one more question, if there is one.

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**Unidentified Participant**

On the PC online games, what's your market share growth for like Steam and other popular (inaudible - microphone inaccessible)?

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**Paul Raines** - GameStop Corporation - CEO

I'm embarrassed to tell you our market share is puny on PC downloads. That's one of the issues of why we got into it. Downloads -- I've got to tell you. We looked at this. We've been at a three year strategic transformation of the company and we did a lot of work three years ago looking at markets and segmentation and we looked at PC -- a group of us, Rob and a bunch of us -- we all looked at it and we thought, well, how big is that going to be? Right? Candidly, we were very mistaken about that. PC download is an enormous business and getting larger.

We have very low share. We've used a white--label provider in the past. We basically were not in the business and so -- the thing about PC download that investors should understand is it's a very incremental business to us -- not unlike the tablet business, not unlike the iDevice trade business. These are incremental businesses that won't cannibalize our console gaming business. So, no, we don't have great share. I think we're going to become meaningful now with the kind of growth we're seeing, but today we're just at the beginning of that.



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**Gary Balter** - *Credit Suisse - Analyst*

All right, thanks guys for joining us.

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**Paul Raines** - *GameStop Corporation - CEO*

Thanks very much.

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