BLOCKBUSTER INC
Form S-4/A
September 08, 2004
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As filed with the Securities and Exchange Commission on September 8, 2004

Registration No. 333-116617

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BLOCKBUSTER INC.

(Exact name of Registrant as specified in its charter)

Delaware	7841	52-1655102
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

1201 Elm Street

Dallas, Texas 75270

(214) 854-3000

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Edward B. Stead

Executive Vice President and General Counsel

Blockbuster Inc.

1201 Elm Street

Dallas, Texas 75270

(214) 854-3000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Michael D. Fricklas	**Stephen T. Giove**	**Alan J. Bogdanow**
Executive Vice President,	**Creighton O M. Condon**	**Vinson & Elkins L.L.P.**
General Counsel and Secretary	**Christa A. D Alimonte**	**3700 Trammell Crow Center**
Viacom Inc.	**Shearman & Sterling LLP**	**2001 Ross Avenue**
1515 Broadway	**599 Lexington Avenue**	**Dallas, TX 75201**
New York, NY 10036	**New York, NY 10022**	**(214) 220-7700**
(212) 258-6000	**(212) 848-4000**	

Approximate date of commencement of proposed sale to the public: As promptly as practicable after the filing of this Registration Statement and other conditions to the commencement of the exchange offer described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per unit	Proposed maximum aggregate offering price (2)	Amount of registration fee (3)
Class A common stock, par value $0.01 per share	72,000,000	N/A		
Class B common stock, par value $0.01 per share	72,000,000	N/A		
Total	144,000,000	N/A	$ 2,210,400,000	$ 280,057.68

(1) Represents the maximum number of shares of class A common stock, par value $0.01 per share (the Blockbuster class A common stock), of Blockbuster Inc., a Delaware corporation (Blockbuster), and shares of class B common stock, par value $0.01 per share (the Blockbuster class B common stock), of Blockbuster offered in exchange for shares of class A common stock, par value $0.01 per share, and class B common stock, par value $0.01 per share, of Viacom Inc., a Delaware corporation (Viacom), as described in the Prospectus-Offer to Exchange filed as part of this Registration Statement.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(f)(1) and (3) and Rule 457(c) of the Securities Act of 1933, as amended (the Securities Act), based on $15.35, the average of the high and low sales prices of Blockbuster class A common stock as reported by the New York Stock Exchange on June 14, 2004. Because there is no trading market for Blockbuster class B common stock, the Blockbuster class A common stock is believed to be the most appropriate measure of the value of the securities to be exchanged in this exchange offer for purposes of calculating the filing fee.

(3) Computed in accordance with Rule 457(f) under the Securities Act to be $280,057.68, which is equal to 0.0001267 multiplied by the proposed maximum aggregate offering price of $2,210,400,000.00. The filing fee of $280,057.68 was previously paid by Blockbuster in connection with the initial filing of this Registration Statement on June 18, 2004.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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THE INFORMATION IN THIS PROSPECTUS-OFFER TO EXCHANGE MAY BE CHANGED. VIACOM MAY NOT SELL OR EXCHANGE THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS-OFFER TO EXCHANGE IS NOT AN OFFER TO SELL OR EXCHANGE THESE SECURITIES AND VIACOM IS NOT SOLICITING OFFERS TO BUY OR EXCHANGE THESE SECURITIES IN ANY STATE WHERE THE EXCHANGE OFFER OR SALE IS NOT PERMITTED.

VIACOM INC.

Offer to Exchange

2.575 Shares of Class A Common Stock

and

2.575 Shares of Class B Common Stock

of

BLOCKBUSTER INC.

which are owned by Viacom Inc.

for

Each Outstanding Share of Class A Common Stock or Class B Common Stock

of

VIACOM INC.

THIS EXCHANGE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON OCTOBER 5, 2004 UNLESS THE OFFER IS EXTENDED. SHARES TENDERED PURSUANT TO THIS EXCHANGE OFFER MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION OF THIS EXCHANGE OFFER.

Viacom is offering to exchange 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock for each outstanding share of Viacom class A or class B common stock that is validly tendered and not properly withdrawn, up to an aggregate of 27,961,165 shares of Viacom class A and class B common stock. The terms and conditions of this exchange offer are described in this Prospectus-Offer to Exchange, which you should read carefully. Neither Viacom nor Blockbuster, nor any of their respective directors or officers, nor the co-dealer managers, makes any recommendation as to whether you should participate in this exchange offer. You must make your own decision after reading this document and consulting with your advisors.

Viacom s obligation to exchange shares of Blockbuster class A and class B common stock for shares of Viacom class A or class B common stock is subject to the conditions listed under The Exchange Offer Conditions for Completion of this Exchange Offer beginning on page 79. Viacom s class A and class B common stock are listed on the New York Stock Exchange under the symbols VIA and VIAB, respectively, and Blockbuster s class A common stock is listed on the New York Stock Exchange under the symbol BBI. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster s class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B. There is no historical trading market for Blockbuster s class B common stock because Viacom has owned all of the issued and outstanding shares of Blockbuster class B common stock since their issuance. Shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this Prospectus-Offer to Exchange or determined if this Prospectus-Offer to Exchange is accurate or adequate. Any representation to the contrary is a criminal offense.

See Risk Factors beginning on page 31 for a discussion of certain factors that you should consider in connection with this exchange offer.

The co-dealer managers for this exchange offer are:

BEAR, STEARNS & CO. INC.

and

GOLDMAN, SACHS & CO.

This document incorporates by reference important business and financial information about Viacom and Blockbuster from documents filed with the Securities and Exchange Commission that have not been included in or delivered with this document. This information is available at the website that the Securities and Exchange Commission maintains at http://www.sec.gov, as well as from other sources. See Where You Can Find More Information About Viacom and Blockbuster beginning on page 157.

You also may ask any questions about this exchange offer or request copies of the exchange offer documents from Viacom, without charge, upon written or oral request to Viacom s information agent, MacKenzie Partners, Inc., located at 105 Madison Avenue, New York, New York 10016 at (800) 322-2885 (toll-free) in the United States or at (212) 929-5500 (collect) elsewhere. In order to receive timely delivery of the documents, you must make your requests no later than September 28, 2004.

The date of this Prospectus-Offer to Exchange is September 8, 2004.

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LETTER FROM BLOCKBUSTER CHAIRMAN & CEO JOHN ANTIOCO

To Viacom Stockholders

As you consider this exchange offer being made by Viacom, I want to take this opportunity to summarize my personal vision for Blockbuster. Whatever the competitive set mass merchants, rentailers, game boutiques or online rental services Blockbuster plans to set itself apart from the competition by transforming itself from a place where you go to rent a movie to a brand where you go to rent, buy or trade a movie or game, new or used, pay-by-the-day, pay-by-the-month, in-store or online. When we achieve this vision, I believe Blockbuster will be a multi-dimensional, highly differentiated and highly profitable home entertainment brand. We see the opportunity for the future growth of Blockbuster. We also see the challenges that face our company and our business, which we have discussed in the Prospectus-Offer to Exchange. As you consider Viacom s exchange offer, please take the time to read and consider the entire Prospectus-Offer to Exchange.

Two years ago Blockbuster announced its new corporate mission statement: to be a complete source for movies and games. Since that time, we have come a long way in redefining BLOCKBUSTER® as a place where customers can *not only* rent movies and games, *but also* buy and trade them as well.

Given Blockbuster s ongoing transformation from a rentailing-only company into a specialty retailer of home entertainment, we believe now is an appropriate time for us to separate from Viacom. Over the course of the past ten years, Viacom has been a supportive majority stockholder, but as Blockbuster has moved to participate on a broader scale in the home entertainment retailing marketplace, we have moved away from the core media business of Viacom.

Blockbuster and Viacom have different competitive strengths, different operating philosophies, and different strategies designed to achieve future growth. However, Blockbuster and Viacom are united in the belief that a split-off of Blockbuster from Viacom will enable each company, respectively, to better focus its managerial and financial resources.

A brief history of Blockbuster s transformation

As a fully independent company, we are looking forward to accelerating our transformation into a specialty retailer of home entertainment. We began this transformation process in 2002 when we established Blockbuster in a much more significant way in the movie retailing business. At that time, we increased our retail movie inventory, merchandising presence and advertising, and implemented various retail sales promotions. It was all part of a plan to have customers notice that there was something new at Blockbuster, and notice they did. We were successful at establishing Blockbuster as a movie retailer, as well as a rentailer.

Our mission didn t change in 2003. We continued to dedicate ourselves to expanding our movie and game offerings, and to accomplishing this transformation more profitably by improving gross margins, reducing low-profit transactions, reducing advertising expenditures and refining marketing programs to give us a better return on investment. This focus on profitability played a central role in our efforts to transform Blockbuster, as the steady operating cash flow from our core rental business has provided us with the ability to invest in new initiatives. Specifically, these new initiatives are rental subscription programs (both in-store and online), movie and game trading, and video game concepts.

We believe our new initiatives will enable us to take advantage of major emerging trends in home entertainment, and throughout the remainder of this year we intend to invest heavily in these initiatives. However, we are realistic about the start-up expenses required for new businesses, and we also understand that some of our new initiatives are at the beginning of what we believe is their potential growth curve. As a result of our investment spending, in combination with the continued weakness in the rental industry, profits for this year and next will be negatively impacted.

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Although these investments in our business will result in short-term sacrifices, we believe the steps we are taking should drive future revenues and are in the long-term interests of our stockholders, our employees and our company.

The market dynamics of home video have changed presenting Blockbuster with challenges and opportunities

Blockbuster has been experiencing declining rental transactions due to increasing competition from various home entertainment alternatives such as retail, cable, satellite, online services and traditional competition. It is anticipated that product offering, promotional activity and price will become increasingly important as Blockbuster tries to differentiate itself in this competitive environment. In addition, we recognize that the video rental market has contracted as a result of the format change from VHS to DVD and the resulting elimination of the exclusive rental window. Some customers are buying movies instead of renting now that they have a choice to buy retail-priced DVDs, and that dynamic should continue to provide challenges both for Blockbuster and the rest of the movie rental industry. However, the market shift to DVD, with lower wholesale pricing than was historically available for VHS movies, has also presented us with opportunities. Due in part to the shift from rental-priced VHS to retail-priced DVD, Blockbuster s rental gross margin significantly improved last year, producing an increase in our consolidated gross profit dollars of almost 10% year-over-year in 2003.

Further, the lower initial wholesale pricing of DVD titles has enabled us to offer copy depth to our customers at higher margins without many of the restrictions of our old VHS revenue-sharing agreements. Furthermore, greater copy depth has caused the market for used DVDs to grow significantly, which we believe represents a significant opportunity for Blockbuster. With so many consumers building movie home libraries as a result of retail-priced DVDs, Blockbuster is now able to enter the movie trading business. Additionally, retail-priced DVD has led to the creation of the subscription rental business, both in-store and online.

In addition to all these benefits, there is still one more. The success of DVD, and the huge and growing profits generated by this digital format for the Hollywood studios, appear to have solidified the studios window sequencing order as it relates to our video rental business. In other words, because the sale and rental of DVD represent the studios largest revenue stream, we believe that the studios for now will continue to release movies to retail home video before they are available on video on demand (VOD). This should reduce any threat that VOD could pose to our business.

So while changes in the marketplace have presented challenges, we believe that some of these changes also have created opportunities to grow our business in the future.

Our core movie rental business an opportunity to grow by increasing market share

In 2003, the U.S. video rental industry generated more than $8 billion in revenues and, while admittedly retail-priced DVD has negatively impacted the rental channel, the rental category should continue to generate billions of dollars in revenues for the foreseeable future according to even conservative industry analyst estimates.

Our plan going forward is to capture a larger share of the domestic rental market and drive more rental customers into our stores through a combination of marketing, promotion, and new rental offerings. As a result, we intend to be able to expose a growing number of customers to our expanding number of new offerings with the goal of increasing the size and number of our transactions and, eventually, our profitability.

To accomplish all of this, we intend to reinvent the way people rent home entertainment, and we intend to do this through our rental subscription programs both in-store and online.

In late May of this year, we began offering on a national basis the BLOCKBUSTER MOVIE PASS, our store-based movie subscription program that we have been testing in multiple markets since the summer of 2002. For a flat monthly fee, the movie pass allows customers to rent an unlimited number of movies, two or three at a time, without return dates or extended viewing fees for as long as they subscribe to the pass. We see the movie

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pass as a key means of increasing our rental traffic in a tough rental market. Our goal is to have 8% of our active monthly members on the service by the end of this year and 10% of our active monthly members paying us a monthly fee by the end of 2005.

As for renting movies online, we see this as a sizable opportunity that can contribute to our long-term profitability. As a defensive strategy, we don t want customers, who are interested in renting online, going anywhere else for their movies. As an offensive move, we think online rentals could represent new customers for us because many potential subscribers live outside the proximity of a BLOCKBUSTER store.

To begin serving these potential online customers, we launched an online rental service in the United Kingdom in mid-May, and launched BLOCKBUSTER Online, our online rental service in the United States, in August. Our plan is to utilize the full power of our globally recognized brand, our marketing ability, our rich customer database and the promotional opportunities afforded by our store network to gain as many subscribers as possible. We see no reason why we can t have a substantial share of the online rental transactions by the end of next year. We are also proceeding with our plans to merge our U.S. in-store and online subscription programs in 2005. This integrated approach should give our customers the best of both worlds the ability to rent or return movies by mail or at their local BLOCKBUSTER store.

The movie and game trading business a new growth opportunity

Another opportunity we are aggressively pursuing and plan to have in place in 2004 is movie and game trading. We believe movie and game trading at Blockbuster represents a significant source of future incremental revenues. Many of the DVDs purchased in the United States last year were previously viewed, and Blockbuster is already the nation s largest retailer of used DVDs. We believe that our customers, who are already accustomed to buying previously rented DVDs from us, will be interested in selling and buying previously owned DVDs at Blockbuster as well.

According to our internal estimates, there are almost two billion DVDs in home video libraries across the United States. There are even more when you factor in international markets, and our research indicates that consumers would be interested in trading many of their DVD movies if they could get a fair value for them.

We first offered the concept of movie trading at our stores during the holiday season of 2003 with our Big DVD Trade-In promotion that gives customers the opportunity to trade in a used DVD and purchase a popular, new title for a reduced price. Also, we have been testing a more comprehensive trading model that enables customers to receive store credit for their used DVDs, which can be used for anything in our stores movies, games or merchandise.

While our trading program is still in its early stages, we believe a strong demand for DVD trading will emerge as consumers learn that trading is a smart, economical way to refresh their movie libraries or monetize their collections. So movie trading is one more benefit we can offer our customers, one more way we can leverage our existing store locations and store traffic and one more way we can differentiate Blockbuster from traditional retailers.

We have tested the trading market since 2002 with the acquisitions of Movie Trading Company and GAMESTATION®, which are freestanding trading store chains. We intend to have movie and game trading available in more than 2,000 of our U.S. stores and all of our 700-plus U.K. stores by the end of 2004.

Games store-in-store concepts another initiative for the future

We also expect to grow our games business by continuing to develop our games store-in-store concepts.

In the United Kingdom, our GAMESTATION chain continues to perform extremely well. As of June 30, 2004, we had approximately 180 GAMESTATION locations, both freestanding and store-in-stores, a net addition of approximately 115 locations since we purchased the chain in late 2002.

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As for the United States, this year we intend to open an additional 300 games store-in-stores under our GAME RUSH logo for a total of 450 domestic games store-in-stores opened in less than one year. In addition, we intend to open approximately 50 new GAME RUSH locations outside of the United States. These GAME RUSH locations offer game rental, retail and trading all within the convenience of a Blockbuster store. By operating GAME RUSH as a store-in-store concept, we believe we will be able to maximize our operating efficiencies by having dedicated game staff during peak hours and utilizing employees from our movie rental operations during slower times. Additionally, we are able to install the GAME RUSH concept quickly with minimal store disruption for a relatively modest investment.

Going forward, we think that about half of our domestic stores, as well as many of our international locations, could accommodate the GAME RUSH concept, and we plan to have 1,000 games store-in-stores operating by the end of 2005.

As with our other initiatives, we intend to be a very aggressive competitor with GAME RUSH. This concept offers us an incremental revenue stream with no additional real estate costs and brings us the opportunity to generate increased customer traffic for the entire store. So once we have established critical mass, we plan to broadly communicate that GAME RUSH is absolutely the best place to buy, rent or trade video games.

Service, store-growth, systems-development & diversity more emphasis going forward

Another initiative designed to differentiate Blockbuster in the marketplace is our continued emphasis on superior service. We believe this emphasis on service, when combined with our array of retail-rental movie and game offerings, will set us apart from other retailers and position Blockbuster as a one-of-a-kind specialty home entertainment retailer. We are now into our second year of implementing initiatives designed to improve customer service at our stores both in the United States and around the world. These initiatives are designed to enable us to eliminate non-value added store activities through better processes and improve service by giving our employees more time to interact with customers. This emphasis on customer service is a critical part of our plan to differentiate ourselves in the marketplace as a specialty retailer of movies and games.

Still an additional undertaking for us in 2004 is the continued upgrading of our management information systems and infrastructure. We are putting a great deal of resources this year into developing and refining our systems, which will in turn support initiatives like our rental subscription and trading programs.

We will also continue to add new stores around the world, both corporate and franchised, and as a multi-national retailer, we remain committed to ensuring that our workforce, supplier base and product offerings reflect the diverse populations we serve.

In summary

The home entertainment market has changed significantly in the past few years, largely due to the emergence of retail-priced DVD, the resulting competition from mass merchants and the increasing availability of other entertainment options. These changes have presented our industry with challenges; however, they have also presented us with new opportunities, including rental subscription programs, online and in-store, movie and game trading, and games store-in-stores, which have the potential to contribute significantly to our operating profits.

All of these initiatives require financial investment. Investment in new information technology systems, store facilities, new processes to ensure employee productivity, marketing, incentives for store personnel, aggressive promotions, and much more. These initiatives also require investments of people resources and a lot of hard work. In short, our transformation will not be easy.

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I believe we are up to the challenge and that we will be better equipped to achieve our goals as an independent, stand-alone company rather than as a subsidiary of Viacom. Blockbuster is a great brand and a great retailing concept. We have approximately 9,000 stores worldwide. We have a plan in place that should allow us to grow our business, and I believe we have the management team, the employees and the franchisees that will enable us to transform Blockbuster into *the* complete source for movies and games.

Sincerely,

JOHN ANTIOCO

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QUESTIONS AND ANSWERS ABOUT THIS EXCHANGE OFFER

Q: Why has Viacom decided to separate Blockbuster from Viacom?

A: Viacom s board of directors has authorized the divestiture of its approximately 81.5% interest in Blockbuster. As a result of the divestiture, Blockbuster will be an independent entity. Each company believes that the separation of Blockbuster from Viacom will provide numerous corporate benefits to itself and the other company, the most important of which are listed below.

Facilitate Viacom s and Blockbuster s Respective Expansion and Growth. Viacom and Blockbuster have significantly different competitive strengths and operating strategies, and each company believes that the separation of Blockbuster from Viacom, which is referred to in this Prospectus-Offer to Exchange as the split-off, will strengthen its ability to focus its managerial and financial resources on developing and growing its core businesses. Viacom is a diversified, broad-based media business, and desires to emphasize capital investment opportunities in its core businesses, rather than investing capital in initiatives that would enhance Blockbuster s growth. Blockbuster is in the rental and retail home video and game industry and shares many more characteristics with other retailers than with Viacom s other businesses. Blockbuster has a number of strategic initiatives that it is currently pursuing in response to industry changes. For example, Blockbuster has plans to expand its rental subscription programs and to continue to develop its games concepts and its movie and games trading model. Execution of these initiatives will move Blockbuster s business further away from Viacom s areas of strategic focus.

Resolve Appearance of Competitive Conflicts Involving Blockbuster and Paramount Pictures. Paramount Pictures Corporation, a Viacom subsidiary, is in the motion picture business and competes with other movie studios. As a result, Blockbuster believes that the other movie studios, which supply Blockbuster with its movies, consider Blockbuster s affiliation with Paramount Pictures to be a conflict of interest. Similarly, because Paramount Pictures supplies movies to Blockbuster s competitors in the video rental market, Viacom believes that Blockbuster s competitors, who are customers of Paramount Pictures, view Paramount Pictures as having a conflict of interest. The split-off should eliminate these perceived competitive conflicts.

Facilitate Investment Decisions by Stockholders. Following the split-off, it will be easier for potential investors to assess Viacom and Blockbuster on an independent basis and choose the company in which to invest and in what relative percentages. The split-off is expected to enable Viacom stockholders who currently own an indirect interest in Blockbuster through Viacom to convert their investment to a direct ownership of Blockbuster in a tax-efficient manner.

Q: Why did Viacom choose this exchange offer as the way to separate Blockbuster from Viacom?

A: Viacom believes this exchange offer is a tax-efficient way to achieve the goals outlined in response to the first question above. It also is expected to allow you, as a Viacom stockholder, to adjust your investment between Viacom and Blockbuster on a tax-free basis for U.S. federal income tax purposes, except with respect to any cash you receive in lieu of fractional shares of Blockbuster class A and class B common stock. This exchange offer also is intended to be tax-free to Viacom.

Q: How will the relationship between Blockbuster and Viacom change after this exchange offer is completed?

A: The split-off is intended to establish Blockbuster as an independent entity. Consequently, after this exchange offer, because Viacom will no longer own a controlling interest in Blockbuster, Blockbuster s board of directors and management will be free to pursue initiatives that they believe are in Blockbuster s best interest without requiring these initiatives to be consistent with Viacom s view of the best interests of Blockbuster or Viacom. In addition, after this exchange offer, Blockbuster will provide all of its own management, financial, tax, accounting, legal and other resources, some of which were previously provided by Viacom. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Transition Services Agreement on page 114. In addition, all of the Blockbuster directors who are also directors or officers of Viacom will resign from Blockbuster s board of directors.

Q: Will the split-off have a financial impact on Blockbuster as an independent company?

A: Following the split-off, Blockbuster anticipates that the renegotiation of services or contracts currently provided by Viacom will result in increased operating expenses. In addition, prior to the commencement of this exchange offer, on September 3, 2004, Blockbuster paid a pro rata special cash distribution of $5.00 per share (approximately $905.6 million in the aggregate) to its stockholders, which is referred to in this Prospectus-Offer to Exchange as the special distribution. As a Viacom stockholder, you were not entitled to receive the special distribution, unless, as of the record date for the special distribution, you also directly held shares of Blockbuster common stock. Blockbuster used borrowings of $650 million under its new credit agreement and the proceeds of its sale of $300 million aggregate principal amount of 9% senior subordinated notes due 2012, which are referred to in this Prospectus-Offer to Exchange as the senior subordinated notes, to fund the payment of the special distribution and finance transaction costs and expenses in connection with the split-off and the special distribution. This new indebtedness will result in increased interest expense as well as customary restrictions regarding matters such as dividends, stock repurchases and the ability to incur additional indebtedness. See the sections entitled Market Prices and Dividend Information Shares of Blockbuster Class A and Class B Common Stock and Dividends, Description of Other Material Agreements New Blockbuster Credit Agreement and Description of Other Material Agreements Indenture Governing 9% Senior Subordinated Notes Due 2012 beginning on pages 86, 149 and 151, respectively.

Q: May I participate in this exchange offer?

A: Any holder of Viacom class A or class B common stock, including Viacom class A or class B common stock that is held through a Viacom or Blockbuster employee benefit plan, may participate in this exchange offer. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of the deadline for directing the trustee of these plans to tender shares held in your plan account.

Q: How many shares of Blockbuster class A and class B common stock will I receive for each share of Viacom class A or class B common stock that I tender?

A: Subject to the proration procedures described below, you will receive 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock for each share of Viacom common stock that you tender and do not withdraw in this exchange offer, regardless of whether you tender shares of Viacom class A or class B common stock. This number of shares of Blockbuster class A and class B common stock you will receive in exchange for each share of Viacom common stock you tender is referred to in this Prospectus-Offer to Exchange as the exchange ratio. Fractional shares of Blockbuster class A and class B common stock will not be issued in this exchange offer (other than to participants in Viacom and Blockbuster employee benefit plans who participate in this exchange offer); instead you will receive cash in lieu of fractional shares. The exchange agent, acting as agent for the Viacom stockholders otherwise entitled to receive fractional shares of

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Blockbuster class A and class B common stock, will aggregate all fractional shares and cause them to be sold in the open market for the accounts of these stockholders.

For example, if you tender either 100 shares of Viacom class A common stock or 100 shares of Viacom class B common stock, you will receive 257 shares of Blockbuster class A common stock, 257 shares of Blockbuster class B common stock and cash in lieu of 0.50 of a share of Blockbuster class A common stock and 0.50 of a share of Blockbuster class B common stock.

Q: What is the aggregate number of shares of Blockbuster class A and class B common stock being offered in this exchange offer?

A: Viacom is offering an aggregate of 72 million shares of Blockbuster class A common stock and 72 million shares of Blockbuster class B common stock, such that following the completion of this exchange offer, the aggregate outstanding Blockbuster common stock will consist of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock. As of the date of this Prospectus-Offer to Exchange, Viacom owns 144 million shares of Blockbuster class B common stock, representing all of the outstanding shares of Blockbuster class B common stock. Prior to the completion of this exchange offer, Viacom will convert 72 million shares of Blockbuster class B common stock, on a one-for-one basis, into shares of Blockbuster class A common stock. These shares of Blockbuster class A common stock are referred to in this Prospectus-Offer to Exchange as converted class A common stock. In this exchange offer, Viacom is offering all of its shares of Blockbuster class B common stock and converted class A common stock.

Q: Why is Viacom converting some of its Blockbuster class B common stock to Blockbuster class A common stock and offering both in this exchange offer?

A: Viacom has agreed to convert 72 million shares of Blockbuster class B common stock on a one-for-one basis into Blockbuster class A common stock and offer both classes of stock in this exchange offer. As discussed below, Blockbuster s amended and restated certificate of incorporation, which is referred to in this Prospectus-Offer to Exchange as Blockbuster s certificate of incorporation, will be amended immediately after Viacom s acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Viacom has agreed to convert these shares and to support the change in the voting rights of the Blockbuster class B common stock as the result of arm s length negotiations with a special committee of Blockbuster s board of directors comprised of directors who are independent of Viacom and Blockbuster, which is referred to in this Prospectus-Offer to Exchange as the Blockbuster special committee. The Blockbuster special committee believes that an equity capitalization of Blockbuster following the completion of this exchange offer that consists of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock will enhance the liquidity of the Blockbuster class A common stock. Viacom s conversion of Blockbuster class B common stock to Blockbuster class A common stock is governed by the amended and restated initial public offering and split-off agreement, which is referred to in this Prospectus-Offer to Exchange as the IPO agreement. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106.

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Q: Will I receive a premium for my Viacom shares?

A: Shares of Blockbuster class A common stock are traded on the New York Stock Exchange. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing price for the Blockbuster class A common stock was $7.90. There is currently no trading market for Blockbuster class B common stock, and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. In addition, neither Viacom nor Blockbuster can predict the prices at which Blockbuster class A or class B common stock will trade after this exchange offer. Shares of Viacom class A and class B common stock are traded on the New York Stock Exchange. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing price for the Viacom class A and class B common stock was $34.60 and $34.13, respectively. Whether Viacom stockholders participating in this exchange offer will receive a premium for their shares of Viacom common stock will depend on the prices for shares of Viacom class A or class B common stock and Blockbuster class A common stock at the expiration date of this exchange offer. Since the market prices of shares of Viacom class A and class B common stock and Blockbuster class A common stock fluctuate, Viacom cannot predict the prices at which shares of Viacom class A or class B common stock and Blockbuster class A common stock will be trading at the expiration date of this exchange offer, and, therefore, cannot predict whether stockholders who participate in this exchange offer will receive a premium for their shares of Viacom class A or class B common stock, or, if they do, the amount of such premium.

Q: Are there any conditions to Viacom s obligation to complete this exchange offer?

A: Yes. Viacom is not required to complete this exchange offer unless the conditions beginning on page 79 are satisfied or waived prior to the expiration of this exchange offer. For example, Viacom is not required to complete this exchange offer unless at least 16,776,699 shares of Viacom class A and class B common stock are tendered so that Viacom can exchange at least 60% of the shares of Blockbuster class B common stock and converted class A common stock that Viacom owns. The minimum number of shares of Viacom class A and class B common stock that must be tendered is referred to in this Prospectus-Offer to Exchange as the minimum amount. Viacom may waive any or all of the conditions to this exchange offer, including the requirement that the minimum amount of shares of Viacom class A and class B common stock be tendered. Blockbuster has no right to waive any of the conditions to this exchange offer. However, Viacom has certain contractual obligations with Blockbuster with respect to the disposition of its Blockbuster class B common stock and converted class A common stock even if the minimum amount condition has not been satisfied, as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transaction Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106.

Q: What happens if more than the minimum amount of shares of Viacom common stock is tendered, but not enough are tendered to allow Viacom to exchange all of the shares of Blockbuster class B common stock and converted class A common stock it owns?

A: In this case, as soon as practicable following the completion of this exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class B common stock and converted class A common stock (if any), except that once Viacom has so distributed more than 80% of the total voting power of Blockbuster in the aggregate in this exchange offer and any spin-off, Viacom may elect not to distribute its remaining shares in a spin-off, so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the adjustment described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-

Off Agreement beginning on page 106. This spin-off is referred to in this Prospectus-Offer to Exchange as the spin-off.

Q: What happens if more than 27,961,165 shares of Viacom common stock are tendered?

A: If more than 27,961,165 shares of Viacom common stock are tendered in the aggregate, all shares of Viacom common stock that are properly tendered will be accepted for exchange on a pro rata basis in proportion to the number of shares tendered. This is referred to in this Prospectus-Offer to Exchange as proration. An exception to proration is that stockholders who beneficially own odd-lots, that is, fewer than 100 shares of either class of Viacom common stock outside of a Viacom or Blockbuster employee benefit plan, may elect that such odd-lot of Viacom class A or class B common stock not be subject to proration. For instance, if you beneficially own 100 shares of Viacom class A common stock and 50 shares of Viacom class B common stock, you may only elect that your odd-lot of 50 shares of Viacom class B common stock not be subject to proration. Proration for each tendering stockholder will be based on the number of shares of Viacom class A or class B common stock tendered by that stockholder in this exchange offer, and not on that stockholder s aggregate ownership of Viacom. Any shares of Viacom common stock not accepted for exchange as a result of proration will be returned to tendering stockholders in certificated form. Viacom will announce its preliminary determination of the extent to which tenders will be prorated by press release by 9:00 a.m., New York City time, on the business day following the expiration of this exchange offer. This determination is referred to in this Prospectus-Offer to Exchange as the preliminary proration factor. Viacom will announce its final determination of the extent to which tenders will be prorated by press release promptly after this determination is made. This determination is referred to in this Prospectus-Offer to Exchange as the final proration factor.

Q: When does this exchange offer expire?

A: The period during which you are permitted to tender your shares of Viacom class A or class B common stock in this exchange offer will expire at 12:00 midnight, New York City time, on October 5, 2004, unless Viacom extends the expiration of this exchange offer. If you hold shares of Viacom class A or class B common stock through a Viacom or Blockbuster employee benefit plan, for administrative reasons, you have a deadline for directing the trustee of your plan to tender shares held in your plan account that is two business days earlier than the expiration date of the exchange offer. Please refer to the special instructions to tender that are being sent to you by the trustees or administrators of these plans. You must tender your shares prior to the expiration of this exchange offer (or such earlier date as communicated to you by the trustees or administrators of the employee benefit plans) if you wish to participate in this exchange offer. Viacom also may terminate this exchange offer in the circumstances described in the section entitled The Exchange Offer Extension; Termination; Amendment beginning on page 78.

Q: Can this exchange offer be extended, and under what circumstances?

A: Yes. Viacom can extend this exchange offer at any time, in its sole discretion, and regardless of whether any condition to this exchange offer has been satisfied or waived. If Viacom extends this exchange offer, it will publicly announce by press release the extension no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Q: How many shares of Viacom common stock will be acquired by Viacom if this exchange offer is completed?

A: The number of shares of Viacom common stock that will be accepted if this exchange offer is completed is between 16,776,699 shares, which is the minimum amount, and 27,961,165 shares.

The minimum amount of Viacom class A and class B common stock that Viacom has indicated it would acquire in this exchange offer is 16,776,699 shares, or 1.0%, of Viacom common stock outstanding as of September 7, 2004. If Viacom acquires this minimum amount, it will exchange 43,200,000 shares, or 60%, of the Blockbuster class B common stock being offered in this exchange offer and 43,200,000 shares, or 60%, of the converted class A common stock.

The maximum amount of Viacom class A and class B common stock that Viacom could acquire in this exchange offer is 27,961,165 shares, or 1.6%, of Viacom common stock outstanding as of September 7, 2004. If Viacom acquires this maximum amount, it will exchange all of the Blockbuster class B common stock and converted class A common stock that it owns.

Q: Does Viacom own any shares of Blockbuster class A common stock other than the converted class A common stock?

A: Yes. In addition to the converted class A common stock, Viacom owns approximately 3.6 million shares, or approximately 9.7%, of Blockbuster class A common stock outstanding as of July 31, 2004, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of this exchange offer by contributing these shares of Blockbuster class A common stock to the Viacom Pension Plan. Pursuant to an amended and restated registration rights agreement between Blockbuster and Viacom, which is referred to in this Prospectus-Offer to Exchange as the registration rights agreement, Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan.

Q: Is National Amusements, Inc. participating in this exchange offer?

A: No. National Amusements, Inc., the controlling stockholder of Viacom, will not participate in this exchange offer. National Amusements, Inc. is referred to in this Prospectus-Offer to Exchange as National Amusements. As of July 31, 2004, National Amusements beneficially owned shares of Viacom class A common stock representing approximately 71% of the voting power of all classes of Viacom stock, and approximately 11% of Viacom class A and class B common stock on a combined basis. The decision not to participate is consistent with the fact that National Amusements has never sold or otherwise disposed of any of its holdings in Viacom. Mr. Sumner M. Redstone, the controlling stockholder of National Amusements and the chairman of the board of directors and chief executive officer of Viacom, is committed to focusing his managerial and financial resources on developing and growing the core businesses of Viacom.

Q: How do I decide whether to participate in this exchange offer?

A: Whether you should participate in this exchange offer depends on many factors. You should examine carefully your specific financial position, plans and needs before you decide whether to participate. Viacom encourages you to consider, among other things:

- your view of the relative values of a single share of Viacom class A or class B common stock and the shares of Blockbuster class A and class B common stock you will receive in this exchange offer; and

- your individual investment strategy with regard to these stocks.

In addition, you should consider all of the factors described in the section entitled Risk Factors beginning on page 31. None of Viacom, Blockbuster, or any of their respective directors or officers or the co-dealer managers makes any recommendation as to whether you should tender your shares of Viacom class A or class B common stock. You must make your own decision after carefully reading this

document and consulting with your advisors based on your own financial position and requirements. It is strongly encouraged that you read this document very carefully.

Q: How do I participate in this exchange offer?

A: The procedures you must follow to participate in this exchange offer will depend on whether you hold your shares of Viacom class A or class B common stock in certificated form, through a bank or broker, in the Viacom Dividend Reinvestment Plan or through a Viacom or Blockbuster employee benefit plan. The Viacom Dividend Reinvestment Plan is referred to as the Viacom DRP in this Prospectus-Offer to Exchange. For specific instructions about how to participate, see the section entitled The Exchange Offer Procedures for Tendering beginning on page 73.

Q: If I hold shares as a participant in a Viacom or Blockbuster employee benefit plan eligible to participate in this exchange offer, how do I participate?

A: If you hold Viacom class A or class B common stock as a participant in a Viacom or Blockbuster employee benefit plan, you should follow the special instructions that are being sent to you by the plan trustees or administrators. You should not use the letter of transmittal to direct the tender of Viacom class A or class B common stock held in any such employee benefit plans. Instead, you may direct the plan trustee to tender all, some or none of the Viacom class A or class B common stock in your employee benefit plan account by following the special instructions that are being sent to you by the plan trustees or administrators. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of the deadline for directing the trustee of your plan to tender shares held in your plan account. See the section entitled The Exchange Offer Procedures for Tendering beginning on page 73 for a list of the Viacom and Blockbuster employee benefit plans eligible to participate in this exchange offer and for specific instructions on how to participate.

Q: Can I tender only a portion of my Viacom class A or class B common stock in this exchange offer?

A: Yes. You may tender all, some or none of your Viacom class A or class B common stock.

Q: What do I do if I want to retain all of my Viacom class A or class B common stock?

A: If you want to retain all of your Viacom class A or class B common stock, you do not need to take any action.

Q: Can I change my mind after I tender my Viacom class A or class B common stock?

A: Yes. You may withdraw your tendered shares at any time before this exchange offer expires. See the section entitled The Exchange Offer Withdrawal Rights beginning on page 77. If you change your mind again, you can re-tender your Viacom class A or class B common stock by following the tender procedures again prior to the expiration of this exchange offer.

Q: How soon can I expect delivery of my Blockbuster class A and class B common stock?

A: Shares of Blockbuster class A and class B common stock will be delivered by book-entry transfer as soon as practicable after acceptance of shares of Viacom common stock in this exchange offer and determination of the final proration factor, if any. See the section entitled The Exchange Offer Book-Entry Accounts on page 78.

Q: Will the Blockbuster class B common stock be listed on an exchange following the completion of this exchange offer?

A: Yes. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B.

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Q: Why is Blockbuster amending its organizational documents?

A: Following the recommendation of Blockbuster s board of directors, Blockbuster s stockholders approved certain amendments to Blockbuster s certificate of incorporation at Blockbuster s 2004 annual meeting. These amendments will be filed and become effective immediately after Viacom s acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. In addition, the amendments remove provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster s board of directors believes are advisable for a publicly traded company without a controlling stockholder. These amendments are referred to in this Prospectus-Offer to Exchange as the Blockbuster charter amendments.

Blockbuster s board of directors is also amending its bylaws to remove the provisions relating to Viacom as a stockholder of Blockbuster and to add other provisions that Blockbuster s board of directors believes are advisable for a publicly traded company without a controlling stockholder. For a more complete description of the Blockbuster charter amendments and the amendments to Blockbuster s bylaws, see the sections entitled Description of Capital Stock of Blockbuster and Comparison of Stockholder Rights beginning on pages 135 and 143, respectively.

Q: Will the Blockbuster class B common stock be convertible into Blockbuster class A common stock following the completion of this exchange offer?

A: No. Following the effectiveness of the Blockbuster charter amendments, shares of Blockbuster class B common stock will not be convertible into shares of Blockbuster class A common stock. See the section entitled Description of Capital Stock of Blockbuster beginning on page 135.

Q: Do the shares of Blockbuster class A and class B common stock have different voting rights?

A: Yes. Holders of shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus- Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Also, see the sections entitled Description of Capital Stock of Blockbuster, and Comparison of Stockholder Rights beginning on pages 135 and 143, respectively.

Q: Will I be taxed on the shares of Blockbuster common stock that I receive in this exchange offer?

A: No, except with respect to cash paid in lieu of fractional shares of Blockbuster class A and class B common stock. On September 8, 2004, Viacom received a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and, if applicable, the spin-off will be tax-free to Viacom and its stockholders, except with respect to any cash received in lieu of fractional shares of Blockbuster class A and class B common stock. This opinion does not address state, local or foreign tax consequences of this exchange offer which may be applicable to Viacom and its stockholders. You should consult your tax advisor as to the particular tax consequences to you of this exchange offer. See the sections entitled Risk Factors Risk Factors Relating to this Exchange Offer If this Exchange Offer and Any Spin-Off Are Determined to Be Taxable, Viacom and Tendering Stockholders Could Be Subject to a Material Amount of Taxes on page 49 and U.S. Federal Income Tax Consequences beginning on page 120.

Q: Are there any appraisal rights for holders of Viacom stock or Blockbuster stock?

A: There are no appraisal rights available to Viacom stockholders or Blockbuster stockholders in connection with this exchange offer.

Q: Where can I find out more information about Viacom and Blockbuster?

A: You can find out more information about Viacom and Blockbuster from various sources described in the section entitled Where You Can Find More Information About Viacom and Blockbuster beginning on page 157.

Q: Who should I call if I have questions about this exchange offer or want copies of additional documents?

A: You may call the information agent, MacKenzie Partners, Inc., at (800) 322-2885 (toll-free) in the United States, or (212) 929-5500 (collect) elsewhere, to ask any questions about this exchange offer or to request additional documents, including copies of this document.

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SUMMARY

As used in this document, unless the context requires otherwise, (1) references to Viacom include Viacom Inc. and its consolidated subsidiaries and (2) references to Blockbuster include Blockbuster Inc. and its consolidated subsidiaries. Unless the context otherwise indicates, Viacom has assumed throughout this document that this exchange offer is fully subscribed and that all shares of Blockbuster class B common stock and converted class A common stock held by Viacom are distributed through this exchange offer. This brief summary does not contain all of the information that should be important to you. You should carefully read this entire document and the other documents to which this document refers to fully understand this exchange offer. See the section entitled Where You Can Find More Information About Viacom and Blockbuster beginning on page 157.

THE COMPANIES

Viacom Inc.

1515 Broadway

New York, New York 10036

(212) 258-6000

www.viacom.com

Viacom is a diversified worldwide entertainment company with operations in the following segments:

Cable Networks: The cable networks segment consists of MTV Networks, including MTV MUSIC TELEVISION®, NICKELODEON®/NICK AT NITE®, VH1®, MTV2 MUSIC TELEVISION, TV LAND®, SPIKE TV, CMT®: COUNTRY MUSIC TELEVISION and COMEDY CENTRAL®; SHOWTIME NETWORKS INC.®; and the BET CABLE NETWORK and BET JAZZ: THE JAZZ CHANNEL, among other program services.

Television: The television segment consists of the CBS® and UPN® television networks, Viacom s 39 owned broadcast television stations and its television production and syndication business, including KING WORLD® and PARAMOUNT TELEVISION.

Radio: The radio segment owns and operates 185 radio stations in 41 U.S. markets through INFINITY RADIO®.

Outdoor: The outdoor segment through VIACOM OUTDOOR displays advertising on media, including billboards, transit shelters, buses, rail systems (in-car, station platforms and terminals), mall kiosks and stadium signage.

Entertainment: The entertainment segment includes PARAMOUNT PICTURES®, which produces and distributes theatrical motion pictures; SIMON & SCHUSTER®, which publishes and distributes consumer books under imprints such as SIMON & SCHUSTER, POCKET BOOKS®, SCRIBNER® and THE FREE PRESS; PARAMOUNT PARKS®, which is principally engaged in the ownership and operation of five theme parks and a themed attraction in the United States and Canada; and movie theater and music publishing operations.

Video: The video segment consists of an approximately 81.5% equity interest in Blockbuster, which operates and franchises approximately 9,000 BLOCKBUSTER® video stores worldwide.

Blockbuster Inc.

1201 Elm Street

Dallas, Texas 75270

(214) 854-3000

www.blockbuster.com

Blockbuster is a leading global provider of in-home rental and retail movie and game entertainment, with approximately 9,000 stores in the United States, its territories and 25 other countries as of June 30, 2004. As of that date, Blockbuster operated approximately 7,200 of the stores, and its franchisees operated approximately 1,800 of the stores. In addition to operating stores under the BLOCKBUSTER® and BLOCKBUSTER VIDEO® brands, Blockbuster operates stores under other brands, such as XTRA-VISION® and MR. MOVIES®. Blockbuster s specialty stores, including its store-in-store concepts, use brands such as GAME RUSH, GAMESTATION®, MOVIE TRADING CO.®, and RHINO VIDEO GAMES®. See Blockbuster s Annual Report on Form 10-K for the year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively.

THE EXCHANGE OFFER

Terms of this Exchange Offer (page 71)

Viacom is offering its stockholders the opportunity to exchange each of their shares of Viacom class A or class B common stock for 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock. Following the completion of this exchange offer, the aggregate outstanding Blockbuster common stock will consist of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock. You may tender all, some or none of your shares of Viacom class A or class B common stock.

Viacom class A and class B common stock properly tendered and not withdrawn will be accepted for exchange at the exchange ratio, on the terms and conditions of this exchange offer and subject to the limitations described below, including the proration provisions. Viacom will promptly return to Viacom stockholders any shares of Viacom class A or class B common stock that are not accepted for exchange following the expiration of this exchange offer and the determination of the final proration factor, if any, described below.

Extension; Termination; Amendment (page 78)

This exchange offer, and your withdrawal rights, will expire at 12:00 midnight, New York City time, on October 5, 2004, unless Viacom decides to extend this exchange offer. You must tender your shares of Viacom class A or class B common stock prior to this time if you want to participate in this exchange offer. Viacom may extend, terminate or amend this exchange offer as described in this Prospectus-Offer to Exchange.

Conditions for Completion of this Exchange Offer (page 79)

This exchange offer is subject to various conditions, including that at least 16,776,699 shares of Viacom class A and class B common stock are tendered so that Viacom may exchange at least 60% of the shares of Blockbuster class B common stock and converted class A common stock it holds. All conditions to the completion of this exchange offer must be satisfied or waived by Viacom prior to the expiration of this exchange offer.

Proration; Odd-Lots (page 72)

If, on the expiration date of this exchange offer, more than 27,961,165 shares of Viacom class A and class B common stock are tendered in this exchange offer, Viacom will accept on a pro rata basis all shares of Viacom class A and class B common stock validly tendered and not withdrawn. Viacom will announce the preliminary proration factor by press release on the first business day after the expiration date. Upon determining the number of shares of Viacom class A and class B common stock validly tendered for exchange, Viacom will announce the final results, including the final proration factor, if any, as promptly as practicable after the expiration date.

If you own fewer than 100 shares of either Viacom class A common stock or Viacom class B common stock and tender all of your shares of that class, you may request that your shares not be subject to proration by completing the box in the letter of transmittal entitled Odd-Lot Shares. If your odd-lot shares are held by a broker for your account, you can contact the broker and request this preferential treatment. All of your odd-lot shares will be accepted for exchange without proration if Viacom completes this exchange offer. If you hold odd-lot shares as a participant in a Viacom or Blockbuster employee benefit plan, you are not entitled to this preferential treatment.

Fractional Shares (page 72)

Fractional shares of Blockbuster class A and class B common stock will not be issued in this exchange offer, except that fractional shares will be credited to the accounts of participants in Viacom and Blockbuster employee benefit plans who participate in this exchange offer by the trustees or administrators of these plans. The exchange agent, acting as agent for the tendering Viacom stockholders, will aggregate any fractional shares and cause them to be sold in the open market. You will receive the proceeds, if any, net of commissions, from the sale of these shares in accordance with your fractional interest.

Procedures for Tendering (page 73)

For you to validly tender your shares of Viacom class A or class B common stock pursuant to this exchange offer, prior to the expiration of this exchange offer:

If you hold certificates for shares of Viacom class A or class B common stock, you must deliver to the exchange agent at the address listed on the back cover of this Prospectus-Offer to Exchange a properly completed and duly executed letter of transmittal (or a manually executed facsimile of that document), along with any required signature guarantees and any other required documents, and the certificates representing the shares of Viacom class A or class B common stock tendered;

If you hold shares of Viacom class A or class B common stock through the Viacom DRP, you must deliver to the exchange agent at the address listed on the back cover of this Prospectus-Offer to Exchange a properly completed and duly executed letter of transmittal (or a manually executed facsimile of that document), along with any required signature guarantees and any other required documents;

If you hold shares of Viacom class A or class B common stock though a broker, you should receive instructions from your broker on how to participate in this exchange offer. In this situation, do not complete the letter of transmittal. Please contact your broker directly if you have not yet received instructions. Some financial institutions may also effect tenders by book-entry transfer through The Depository Trust Company;

If you hold shares of Viacom class A or class B common stock as a participant in a Viacom or Blockbuster employee benefit plan and your shares are eligible to be tendered in this exchange offer under the terms of the relevant plan, special instructions are being sent to you by the trustees or administrators of these plans on how to tender these shares. Do not use the letter of transmittal to tender shares of Viacom class A or class B common stock held in these plans; or

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If you wish to tender your shares of Viacom class A or class B common stock but the shares are not immediately available, or time will not permit the shares or other required documentation to reach the exchange agent prior to the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must follow the procedures for guaranteed delivery under the section entitled The Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures beginning on page 75.

Delivery of Shares of Blockbuster Class A and Class B Common Stock (page 73)

Shares of Blockbuster class A and class B common stock will be delivered by book-entry transfer as soon as reasonably practicable after the acceptance of shares of Viacom class A or class B common stock for exchange and the determination of the final proration factor, if necessary.

Withdrawal Rights (page 77)

You may withdraw your tendered shares of Viacom class A or class B common stock at any time prior to the expiration of this exchange offer. If you change your mind again, you may re-tender your shares of Viacom class A or class B common stock by again following the exchange offer procedures prior to the expiration of this exchange offer.

No Appraisal Rights (page 69)

No appraisal rights are available to Viacom stockholders or Blockbuster stockholders in connection with this exchange offer.

Legal Limitations (page 82)

This document is not an offer to sell or exchange and it is not a solicitation of an offer to buy any shares of Blockbuster class B common stock or Blockbuster class A common stock in any jurisdiction in which, except as provided below, the offer, sale or exchange is not permitted. Viacom is not aware of any jurisdiction in the United States where the making of this exchange offer or its acceptance would not be legal. If Viacom learns of any jurisdiction where making this exchange offer or its acceptance would not be permitted, Viacom currently intends to make a good faith effort to comply with the relevant law. If, after such good faith effort, Viacom cannot comply with such law, Viacom will determine whether this exchange offer will be made to and whether tenders will be accepted from or on behalf of persons who are holders of shares of Viacom class A or class B common stock residing in the jurisdiction.

SPIN-OFF AND DISPOSITIONS OF BLOCKBUSTER COMMON STOCK (page 83)

Blockbuster Class B Common Stock and Converted Class A Common Stock

Viacom will dispose of any shares of Blockbuster class B common stock and converted class A common stock it holds following this exchange offer and any subsequent spin-off. As soon as practicable following the completion of this exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class B common stock and converted class A common stock (if any), except that once Viacom has so distributed more than 80% of the total voting power of Blockbuster in the aggregate in this exchange offer and any spin-off, Viacom may elect not to distribute its remaining shares in a spin-off so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the adjustment described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between

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Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. The exchange agent, acting in its ongoing capacity as transfer agent for the Viacom stockholders otherwise entitled to receive fractional shares of Blockbuster class B common stock and converted class A common stock, will aggregate and cause to be sold all such fractional shares in the open market for the account of these stockholders.

Blockbuster Class A Common Stock

Viacom owns approximately 3.6 million shares of Blockbuster class A common stock, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of this exchange offer by contributing these shares of Blockbuster class A common stock to the Viacom Pension Plan.

RISK FACTORS (page 31)

In deciding whether to tender your shares of Viacom class A or class B common stock, you should carefully consider the matters described in the section entitled Risk Factors beginning on page 31, as well as other information included in this document and the other documents to which you have been referred.

COMPARATIVE MARKET VALUE OF SECURITIES (page 85)

Viacom class A common stock and Viacom class B common stock is listed on the New York Stock Exchange under the symbols VIA and VIAB, respectively. Blockbuster class A common stock is listed on the New York Stock Exchange under the symbol BBI. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B.

On June 17, 2004, the last New York Stock Exchange trading day before the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing sale prices of the Viacom class A common stock, the Viacom class B common stock and the Blockbuster class A common stock were $37.21, $36.66 and $15.39, respectively. On August 25, 2004, Blockbuster s shares of class A common stock began trading ex-dividend reflecting the special distribution. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing sale prices of the Viacom class A common stock, the Viacom class B common stock and the Blockbuster class A common stock were $34.60, $34.13 and $7.90, respectively.

DESCRIPTION OF CAPITAL STOCK OF BLOCKBUSTER (page 135)

Following the effectiveness of the Blockbuster charter amendments, shares of Blockbuster class B common stock will not be convertible into shares of Blockbuster class A common stock. Holders of shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Also see the section entitled Description of Capital Stock of Blockbuster Common Stock beginning on page 135.

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REGULATORY APPROVAL (page 69)

Certain acquisitions of Blockbuster class A and class B common stock under this exchange offer may require a premerger notification filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. If you decide to participate in this exchange offer and, consequently, acquire enough shares of Blockbuster class A and class B common stock to exceed the $50 million threshold stated in the Hart-Scott-Rodino Act and associated regulations, and if an exemption under the Hart-Scott-Rodino Act or regulations does not apply, Viacom and you would be required to make filings under the Hart-Scott-Rodino Act and you would be required to pay the applicable filing fee. A filing requirement could delay the exchange of shares with you until the waiting periods in the Hart-Scott-Rodino Act have expired or been terminated. See the section entitled The Transaction Regulatory Approval on page 69.

U.S. FEDERAL INCOME TAX CONSEQUENCES (page 120)

On September 8, 2004, Viacom received a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and, if applicable, the spin-off will be tax-free to Viacom and its stockholders, except with respect to any cash received in lieu of fractional shares of Blockbuster class A and class B common stock. This tax opinion does not address any state, local or foreign tax consequences of this exchange offer which may be applicable to Viacom and its stockholders. You should consult your tax advisor as to the particular consequences to you of this exchange offer. See the sections entitled Risk Factors Risk Factors Relating to this Exchange Offer If this Exchange Offer and Any Spin-Off Are Determined to be Taxable, Viacom and Tendering Stockholders Could Be Subject to a Material Amount of Taxes on page 49 and U.S. Federal Income Tax Consequences beginning on page 120, respectively.

ACCOUNTING TREATMENT OF THIS EXCHANGE OFFER (page 69)

The shares of Viacom class A and class B common stock received by Viacom pursuant to this exchange offer will be recorded as an acquisition of treasury stock at a cost equal to the market value of the Viacom shares accepted in this exchange offer at the expiration of this exchange offer.

THE EXCHANGE AGENT

The exchange agent for this exchange offer is The Bank of New York.

THE INFORMATION AGENT

The information agent for this exchange offer is MacKenzie Partners, Inc.

THE CO-DEALER MANAGERS

The co-dealer managers for this exchange offer are Bear, Stearns & Co. Inc. and Goldman, Sachs & Co., and they are referred to in this Prospectus-Offer to Exchange as Bear Stearns and Goldman Sachs respectively.

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COMPARATIVE PER SHARE DATA

The following tables present certain historical and pro forma per share data for Viacom and Blockbuster. Holders of Viacom common stock who participate in this exchange offer will receive 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock for each share of Viacom class A or class B common stock tendered.

Viacom Per Share Data

	Year Ended or at December 31,					Six Months Ended or at June 30,	
	1999	2000	2001	2002	2003	2003	2004
Viacom historical per share data						(unaudited)	
Net earnings (loss) before cumulative effect of change in accounting principle:							
Basic	$ 0.46	$ (0.30)	$ (0.13)	$ 1.26	$ 0.82	$ 0.64	$ 0.85
Diluted	$ 0.45	$ (0.30)	$ (0.13)	$ 1.24	$ 0.82	$ 0.64	$ 0.84
Net earnings (loss):							
Basic	$ 0.46	$ (0.67)	$ (0.13)	$ 0.41	$ 0.81	$ 0.63	$ 0.85
Diluted	$ 0.45	$ (0.67)	$ (0.13)	$ 0.41	$ 0.80	$ 0.63	$ 0.84
Book value per common share(1)	$ 15.95	$ 32.07	$ 35.71	$ 35.78	$ 36.44	$ 36.46	$ 37.10
Cash dividends declared per common share(2)					$ 0.12		$ 0.12
Viacom unaudited pro forma per share data(3)							
Pro forma net earnings (loss) before cumulative effect of change in accounting principle:							
Basic			$ (0.02)	$ 1.16	$ 1.30		$ 0.78
Diluted			$ (0.02)	$ 1.15	$ 1.29		$ 0.78
Pro forma book value per pro forma common share(4)							$ 36.45
Pro forma cash dividends per common share(2)					$ 0.12		$ 0.12

Blockbuster Per Share Data

	Year Ended or at December 31,					Six Months Ended or at June 30,	
	1999	2000	2001	2002	2003	2003	2004
Blockbuster historical per share data						(unaudited)	
Income (loss) before cumulative effect of change in accounting principle:	$ (0.44)	$ (0.43)	$ (1.37)	$ 1.06	$ (5.44)	$ 0.81	$ 0.88

Basic							
Diluted	$ (0.44)	$ (0.43)	$ (1.37)	$ 1.04	$ (5.44)	$ 0.81	$ 0.88
Net income (loss):							
Basic	$ (0.44)	$ (0.43)	$ (1.37)	$ (9.11)	$ (5.46)	$ 0.79	$ 0.88
Diluted	$ (0.44)	$ (0.43)	$ (1.37)	$ (8.96)	$ (5.46)	$ 0.79	$ 0.88
Book value per common share(1)	$ 35.00	$ 34.33	$ 32.52	$ 23.20	$ 17.96	$ 24.11	$ 18.80
Cash dividends declared per common share(5)	$ 0.02	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.04	$ 0.04

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	Year Ended or at December 31,					Six Months Ended or at June 30,	
	1999	2000	2001	2002	2003	2003	2004
Blockbuster unaudited pro forma per share data						(unaudited)	
Pro forma income (loss) before cumulative effect of change in accounting principle:							
Basic					$ (5.68)		$ 0.76
Diluted					$ (5.68)		$ 0.76
Pro forma book value per pro forma common share(6)							$ 13.83
Pro forma cash dividends per common share(7)					$ 5.08		$ 0.04

(1) Book value per common share is defined as total stockholders equity divided by the sum of the outstanding class A and class B common stock.
(2) Viacom s board of directors has declared a quarterly cash dividend of $0.06 per share on its common stock beginning in the third quarter of 2003.
(3) Pro forma per share data for the year ended December 31, 2003 and the six months ended June 30, 2004 is presented as if the split-off occurred on January 1, 2003. Due to Viacom s intention to account for the disposal of its investment in Blockbuster as a discontinued operation, Viacom s pro forma per share data for the years ended December 31, 2002 and 2001 is presented to show Blockbuster as a discontinued operation of Viacom. For a more complete description of the effects of the split-off, see the section entitled Viacom Unaudited Pro Forma Consolidated Condensed Financial Information and the accompanying notes beginning on page 90.
(4) The pro forma outstanding shares used in calculating Viacom s pro forma book value per share reflect the reduction of 28.0 million shares as a result of the consummation of this exchange offer (see the section entitled Viacom Unaudited Pro Forma Consolidated Condensed Financial Information beginning on page 90).
(5) Blockbuster s board of directors has declared a cash dividend of $0.02 per share each quarter beginning in October 1999, after Blockbuster s initial public offering.
(6) The pro forma stockholders equity used in calculating Blockbuster s unaudited pro forma book value per pro forma common share reflects Blockbuster s payment of the special distribution of $5.00 per share to all Blockbuster stockholders and other pro forma adjustments.
(7) Unaudited pro forma cash dividends per common share include Blockbuster s payment of the special distribution of $5.00 per share to all Blockbuster stockholders as of January 1, 2003.

See the footnotes to Summary Selected Historical Financial Data For Viacom and Blockbuster beginning on page 23 for items affecting comparability between periods.

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SELECTED HISTORICAL FINANCIAL DATA FOR VIACOM AND BLOCKBUSTER

Viacom Selected Historical Financial Data

The selected consolidated financial data presented below has been derived from, and should be read together with, Viacom s consolidated financial statements and the accompanying notes and the related Management s Discussion and Analysis of Results of Operations and Financial Condition sections included in Viacom s Annual Report on Form 10-K for the year ended December 31, 2003 and Viacom s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which are incorporated by reference into this document. To find out where you can obtain copies of Viacom s documents that have been incorporated by reference, see the section entitled Where You Can Find More Information About Viacom and Blockbuster beginning on page 157.

Viacom Inc.

Statement of Operations Data

(in millions, except per share amounts)

	Year Ended December 31,					Six Months Ended June 30,	
	1999	2000(a)(b)	2001(c)	2002(d)	2003(e)(f)	2003	2004(f)
						(unaudited)	
Revenues	$ 12,858.8	$ 20,043.7	$ 23,222.8	$ 24,605.7	$ 26,585.3	$ 12,469.1	$ 13,614.2
Depreciation and amortization	$ 844.7	$ 2,223.5	$ 3,087.0	$ 945.6	$ 999.8	$ 487.6	$ 517.2
Operating income	$ 1,247.3	$ 1,320.9	$ 1,460.2	$ 4,596.7	$ 3,625.8	$ 2,302.3	$ 2,626.6
Net earnings (loss) before cumulative effect of change in accounting principle	$ 334.0	$ (363.8)	$ (223.5)	$ 2,206.6	$ 1,435.4	$ 1,121.2	$ 1,464.3
Net earnings (loss)	$ 334.0	$ (816.1)	$ (223.5)	$ 725.7	$ 1,416.9	$ 1,102.7	$ 1,464.3
Net earnings (loss) attributable to common stock	$ 321.6	$ (816.1)	$ (223.5)	$ 725.7	$ 1,416.9	$ 1,102.7	$ 1,464.3
Basic earnings (loss) per common share:							
Net earnings (loss) before cumulative effect of change in accounting principle	$ 0.46	$ (0.30)	$ (0.13)	$ 1.26	$ 0.82	$ 0.64	$ 0.85
Net earnings (loss)	$ 0.46	$ (0.67)	$ (0.13)	$ 0.41	$ 0.81	$ 0.63	$ 0.85
Diluted earnings (loss) per common share:							
Net earnings (loss) before cumulative effect of change in accounting principle	$ 0.45	$ (0.30)	$ (0.13)	$ 1.24	$ 0.82	$ 0.64	$ 0.84
Net earnings (loss)	$ 0.45	$ (0.67)	$ (0.13)	$ 0.41	$ 0.80	$ 0.63	$ 0.84
Weighted average shares outstanding:							
Basic	695.2	1,225.3	1,731.6	1,752.8	1,744.0	1,746.1	1,727.6

Diluted	709.5	1,225.3	1,731.6	1,774.8	1,760.7	1,763.2	1,740.3
Cash dividends declared per common share	$	$	$	$	$ 0.12		$ 0.12

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Viacom Inc.

Balance Sheet Data

(in millions)

	At December 31,					At June 30,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Total assets	$ 24,486.4	$ 82,809.3	$ 90,809.9	$ 90,043.2	$ 89,848.5	$ 90,715.8	$ 89,671.5
Long-term debt, including capital leases(g)	$ 5,992.0	$ 12,697.7	$ 11,122.7	$ 10,404.2	$ 9,879.5	$ 10,722.1	$ 9,783.1
Total stockholders equity	$ 11,132.0	$ 47,966.9	$ 62,716.8	$ 62,487.8	$ 63,205.0	$ 63,660.2	$ 63,965.4

(a) As a result of the adoption of Statement of Position 00-2, Accounting by Producers or Distributors of Films, Viacom recorded a non-cash after-tax charge of $452.3 million as a cumulative effect of a change in accounting principle.

(b) On May 4, 2000, CBS Corporation merged with and into Viacom, and, effective from such date, its results of operations are included in Viacom s consolidated financial results.

(c) Results include a primarily non-cash Blockbuster charge of $396.6 million ($198.3 million, net of minority interest and tax) for the elimination of less-productive VHS tapes, a charge of approximately $75.4 million at MTV Networks related to a restructuring plan to reduce headcount and close certain international offices and a charge of $53.4 million in connection with the integration of UPN and CBS Network operations.

(d) As a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets (SFAS 142), Viacom recorded an after-tax non-cash charge of $1.5 billion, net of $336.1 million of minority interest, as a cumulative effect of a change in accounting principle.

(e) Results include a non-cash charge of $1.3 billion ($1.0 billion, net of minority interest and tax) related to a reduction in Blockbuster s goodwill and other long-lived assets resulting from the application of SFAS 142 and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144).

(f) Viacom s board of directors declared a quarterly cash dividend of $0.06 per share on its common stock for the third and fourth quarters of 2003 and the first and second quarters of 2004.

(g) Long-term debt, including capital leases, includes both the current and long-term portions of long-term debt and capital leases.

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Blockbuster Selected Historical Financial Data

The selected consolidated financial data presented below has been derived from, and should be read together with, Blockbuster s consolidated financial statements and the accompanying notes and the related Management s Discussion and Analysis of Financial Condition and Results of Operations sections included in Blockbuster s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively.

Blockbuster Inc.

Statement of Operations Data

(in millions, except per share amounts and worldwide store data)

	Year Ended or at December 31,					Six Months Ended or at June 30,	
	1999	**2000(a)**	**2001(b)**	**2002**	**2003(c)**	**2003**	**2004**
						(unaudited)	
Revenues	$ 4,463.5	$ 4,960.1	$ 5,156.7	$ 5,565.9	$ 5,911.7	$ 2,910.0	$ 2,924.3
Gross profit	$ 2,701.0	$ 2,924.1	$ 2,736.0	$ 3,207.2	$ 3,521.9	$ 1,729.3	$ 1,795.0
Amortization of intangibles	$ 171.8	$ 180.1	$ 177.1	$ 1.7	$ 2.4	$ 0.5	$ 1.2
Impairment of goodwill and other long-lived assets	$	$	$	$	$ 1,304.9	$	$
Operating income (loss)	$ 121.7	$ 75.7	$ (219.6)	$ 337.1	$ (845.2)	$ 254.0	$ 201.2
Income (loss) before cumulative effect of change in accounting principle	$ (69.2)	$ (75.9)	$ (240.3)	$ 189.4	$ (979.5)	$ 146.1	$ 159.4
Cumulative effect of change in accounting principle, net of tax(d)	$	$	$	$ (1,817.0)	$ (4.4)	$ (4.4)	$
Net income (loss)	$ (69.2)	$ (75.9)	$ (240.3)	$ (1,627.6)	$ (983.9)	$ 141.7	$ 159.4
Basic earnings (loss) per common share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.44)	$ (0.43)	$ (1.37)	$ 1.06	$ (5.44)	$ 0.81	$ 0.88
Net income (loss)(d)	$ (0.44)	$ (0.43)	$ (1.37)	$ (9.11)	$ (5.46)	$ 0.79	$ 0.88
Diluted earnings (loss) per common share:							
Income (loss) before cumulative effect of change in accounting principle	$ (0.44)	$ (0.43)	$ (1.37)	$ 1.04	$ (5.44)	$ 0.81	$ 0.88
Net income (loss)(d)	$ (0.44)	$ (0.43)	$ (1.37)	$ (8.96)	$ (5.46)	$ 0.79	$ 0.88
Dividends per share	$ 0.02	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.04	$ 0.04
Weighted average shares outstanding:							
Basic	156.1	175.0	175.6	178.6	180.1	179.7	181.0
Diluted	156.1	175.0	175.6	181.6	180.1	180.4	181.8
Balance Sheet Data							
Total assets	$ 8,540.8	$ 8,548.9	$ 7,752.4	$ 6,243.8	$ 4,854.9	$ 5,979.8	$ 4,782.4
	$ 1,325.2	$ 1,169.3	$ 727.8	$ 541.5	$ 219.9	$ 433.9	$ 145.9

Long-term debt, including capital leases(i)							
Total stockholders equity	$ 6,125.0	$ 6,008.4	$ 5,748.7	$ 4,167.0	$ 3,249.3	$ 4,334.1	$ 3,404.8

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Blockbuster Inc.

(in millions, except margins and worldwide store data)

	Year Ended or at December 31,					Six Months Ended or at June 30,	
	1999	2000(a)	2001(b)	2002	2003(c)	2003	2004
						(unaudited)	
Cash Flow Data							
Cash flows provided by operating activities	$ 1,142.8	$ 1,320.8	$ 1,395.1	$ 1,451.2	$ 1,416.1	$ 579.3	$ 455.2
Cash flows used for investing activities	$ (1,258.1)	$ (1,056.8)	$ (945.2)	$ (1,303.5)	$ (1,010.4)	$ (487.8)	$ (480.2)
Cash flows provided by/(used for) financing activities	$ 137.2	$ (187.2)	$ (441.2)	$ (199.2)	$ (335.5)	$ (119.1)	$ (87.4)
Margins							
Rental margin(e)	66.0%	64.4%	57.7%	66.1%	70.0%	68.9%	72.1%
Merchandise margin(f)	21.0%	21.4%	18.9%	17.1%	19.8%	18.6%	22.5%
Gross margin(g)	60.5%	59.0%	53.1%	57.6%	59.6%	59.4%	61.4%
Worldwide Store Data							
Same store revenues increase (decrease)(h)	8.3%	5.6%	2.5%	5.1%	(2.2)%	3.3%	(5.1)%
Company-operated stores at end of period	5,879	6,254	6,412	6,907	7,105	7,029	7,180
Franchised and joint venture stores at end of period	1,274	1,423	1,569	1,638	1,762	1,669	1,794
Total stores at end of period	7,153	7,677	7,981	8,545	8,867	8,698	8,974

(a) During the fourth quarter of 2000, Blockbuster recognized a non-cash charge of $31.6 million, related to the impairment of certain hardware and capitalized software costs in its new media segment.

(b) In 2001, Blockbuster recognized charges of $396.6 million related to the execution of a strategic re-merchandising plan to allow for an expansion of store space for DVD and other strategic product offerings and a change in accounting estimates related to its rental library. The charges decreased gross profit by $337.6 million and operating income by $394.7 million.

(c) During the fourth quarter of 2003, Blockbuster recognized a non-cash charge of $1.3 billion to record an impairment of goodwill and other long-lived assets, in accordance with SFAS 142 and SFAS 144.

(d) During the first quarter of 2002, Blockbuster adopted SFAS 142 which eliminates the amortization of goodwill and intangible assets with indefinite lives and requires instead that those assets be tested for impairment annually. The application of the transition provisions of this new accounting standard required Blockbuster to reduce its goodwill by $1.82 billion. During the first quarter of 2003, Blockbuster adopted SFAS 143, Accounting for Asset Retirement Obligations, which requires the capitalization of any retirement costs as part of the total cost of the related long-lived asset and the subsequent allocation of the total expense to future periods. The application of this new accounting standard required Blockbuster to record a $4.4 million cumulative effect of a change in accounting principle.

(e) Rental gross profit as a percentage of rental revenues.

(f) Merchandise gross profit as a percentage of merchandise sales.

(g) Gross profit as a percentage of total revenues.

(h) A store is included in the same store revenues calculation after it has been opened and operated by Blockbuster for more than 52 weeks. An acquired store becomes part of the same store base in the 53rd week after its acquisition and conversion. The percentage change is computed by comparing total net revenues for stores at the end of the applicable reporting period with total net revenues from these same stores for the comparable period in the prior year.

(i) Long-term debt, including capital leases, includes both the current and long-term portions of long-term debt and capital leases.

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SUMMARY UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL INFORMATION FOR VIACOM AND BLOCKBUSTER

Viacom Summary Unaudited Pro Forma Consolidated Condensed Financial Information

The following summary unaudited pro forma financial information is derived from and should be read together with the information provided in the section entitled Viacom Unaudited Pro Forma Consolidated Condensed Financial Information and the accompanying notes beginning on page 90. The summary unaudited pro forma financial information has been prepared based upon the historical consolidated financial statements and accompanying notes of Viacom and Blockbuster incorporated by reference or included herein as the case may be. The unaudited pro forma consolidated condensed statement of operations data is presented as if the split-off occurred on January 1, 2003. Due to Viacom s intention to account for the disposal of its investment in Blockbuster as a discontinued operation, the unaudited pro forma consolidated condensed statements of operations for the years ended December 31, 2002 and 2001 are presented to show Blockbuster as a discontinued operation of Viacom. The unaudited pro forma consolidated condensed balance sheet data is presented as if the split-off occurred on June 30, 2004. For a more complete description of the split-off, see the section entitled Viacom Unaudited Pro Forma Consolidated Condensed Financial Information and the accompanying notes beginning on page 90.

Viacom s summary unaudited pro forma consolidated condensed financial information is presented for illustrative purposes only and does not necessarily indicate the operating results or the financial position that would have been achieved had the split-off been completed as of the dates indicated or the results that may be obtained in the future. This information should be read together with the consolidated financial statements and accompanying notes and the related Management s Discussion and Analysis of Financial Condition and Results of Operations sections included in Viacom s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Viacom s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are incorporated by reference into this document.

Viacom Inc.

Unaudited Pro Forma Consolidated Condensed Statement of Operations Data

(in millions, except per share amounts)

	Year Ended December 31,			Six Months Ended June 30,
	2001	2002	2003	2004
Revenues	$ 18,240.4	$ 19,186.8	$ 20,827.6	$ 10,744.9
Operating income	$ 1,679.8	$ 4,240.9	$ 4,473.1	$ 2,425.7
Net earnings (loss) before cumulative effect of change in accounting principle	$ (26.8)	$ 2,042.0	$ 2,236.1	$ 1,333.0
Net earnings (loss) per common share before cumulative effect of change in accounting principle:				
Basic	$ (0.02)	$ 1.16	$ 1.30	$ 0.78
Diluted	$ (0.02)	$ 1.15	$ 1.29	$ 0.78
Weighted average number of common shares outstanding:				
Basic	1,731.6	1,752.8	1,716.0	1,699.6
Diluted	1,731.6	1,774.8	1,732.7	1,712.3

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Viacom Inc.

Unaudited Pro Forma Consolidated Condensed Balance Sheet Data

(in millions)

	At June 30, 2004
Total assets	$ 85,663.5
Long-term debt, including capital leases	9,637.2
Total stockholders equity	61,820.5

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Blockbuster Summary Unaudited Pro Forma Consolidated Condensed Financial Information

The following summary unaudited pro forma financial information is derived from and should be read together with the information provided in the section entitled Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information and the accompanying notes beginning on page 99. The summary unaudited pro forma financial information has been prepared based on Blockbuster s historical consolidated financial statements and accompanying notes included in Blockbuster s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively. The unaudited pro forma consolidated condensed statement of operations data assumes that the split-off and related transactions occurred as of January 1, 2003. The unaudited pro forma consolidated condensed balance sheet data assumes that these transactions occurred as of June 30, 2004. For a more complete description of the Blockbuster pro forma adjustments, see the section entitled Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information and the accompanying notes thereto beginning on page 99.

Blockbuster s summary unaudited pro forma consolidated condensed financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have been achieved had the split-off and related transactions been completed as of the dates indicated or of the operating results or financial position that may be obtained in the future. Blockbuster believes the estimates and assumptions used to prepare its unaudited pro forma consolidated condensed financial information provide a reasonable basis for presenting the significant effects of the split-off and related transactions and that the pro forma adjustments give an appropriate effect to the estimates and assumptions and are properly applied in Blockbuster s unaudited pro forma consolidated condensed financial information.

This information should be read together with the consolidated financial statements and accompanying notes and the related Management s Discussion and Analysis of Financial Condition and Results of Operations sections included in Blockbuster s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are included in this Prospectus Offer to Exchange as Annex A and Annex B, respectively.

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Blockbuster Inc.

Unaudited Pro Forma Consolidated Condensed Statement of Operations Data

(in millions, except per share amounts)

	Year Ended December 31, 2003	Six Months Ended June 30, 2004
Revenues	$ 5,911.7	$ 2,924.3
Gross profit	$ 3,521.9	$ 1,795.0
Operating income (loss)	$ (859.6)	$ 193.9
Income (loss) before cumulative effect of change in accounting principle	$ (1,023.2)	$ 137.4
Income (loss) per share before cumulative effect of change in accounting principle:		
Basic	$ (5.68)	$ 0.76
Diluted	$ (5.68)	$ 0.76
Weighted average number of common shares outstanding:		
Basic	180.1	181.0
Diluted	180.1	181.8

Blockbuster Inc.

Unaudited Pro Forma Consolidated Condensed Balance Sheet Data

(in millions)

	At June 30, 2004
Total assets	$ 4,834.2
Long-term debt, including capital lease obligations	$ 1,095.9
Total stockholders equity	$ 2,505.1

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RISK FACTORS

You should consider carefully all of the information set forth or incorporated by reference in this document and, in particular, the following risk factors in considering whether or not to tender your shares of Viacom class A or class B common stock pursuant to this exchange offer.

The risk factors have been separated into three groups:

- risks that relate to Viacom s business;
- risks that relate to Blockbuster s business; and
- risks that relate to this exchange offer.

Prior to the split-off, the risks described below that relate to Blockbuster s business apply to Viacom. Viacom will also have certain liabilities with respect to Blockbuster which are described below in the section entitled Risk Factors Relating to Viacom s Business Viacom Has Contingent Liabilities Related to Discontinued Businesses. In addition, the risks described below and elsewhere in this Prospectus-Offer to Exchange are not the only ones Viacom and Blockbuster are facing or that relate to this exchange offer. The risks described below are considered to be the most material. However, there may be other unknown or unpredictable economic, business, competitive, regulatory, geopolitical or other factors that also could have material adverse effects on Viacom s or Blockbuster s future results or on this exchange offer. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

If any of the events described below under the sections entitled Risk Factors Relating to Viacom s Business and Risk Factors Relating to Blockbuster s Business were to occur, Viacom s and Blockbuster s business, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected. In any such case, the price of shares of Viacom class A and/or class B common stock and/or shares of Blockbuster class A and/or class B common stock could decline, and you could lose all or part of your investment in Viacom or Blockbuster. In addition, the risks described below and elsewhere in this document associated with Blockbuster are, until the completion of this exchange offer and any spin-off, also associated with Viacom due to Viacom s ownership interest in Blockbuster.

In addition, for a discussion of additional uncertainties associated with (1) Viacom s and Blockbuster s businesses and (2) forward-looking statements in this document, see the section entitled Cautionary Statement Concerning Forward-Looking Statements on page 50.

For the purposes of these risk factors, unless the context otherwise indicates, Viacom has assumed that this exchange offer is fully subscribed and that all shares of Blockbuster class B common stock and converted class A common stock held by Viacom are distributed through this exchange offer and that all of the shares of Blockbuster class A common stock Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster are contributed to the Viacom Pension Plan.

Risk Factors Relating to Viacom s Business

Adverse Changes to Factors Affecting Advertising Sales Could Have a Negative Effect on Viacom s Revenues

Viacom derives substantial revenues from the sale of advertising on its over-the-air networks, basic cable networks, television stations, radio stations and outdoor businesses (and, if Viacom completes this exchange offer, advertising revenues will constitute an even higher percentage of Viacom s total revenues than they currently do). The sale of advertising is affected by viewer demographics, viewer ratings and market conditions for advertising. Adverse changes to any of these factors, including as a result of acts of terrorism or war, could have a negative effect on revenues.

Viacom s Basic Cable and Premium Subscription Television Networks Are Dependent Upon Affiliation Agreements with Cable and Direct-to-Home Distributors. Adverse Changes to the Terms of These Agreements and Consolidation Among Distributors Could Have a Negative Effect on Viacom s Revenues

Viacom s basic cable networks and premium subscription television networks are dependent upon affiliation agreements with cable and direct-to-home satellite services, which are referred to in this Prospectus-Offer to Exchange as DTH, distributors on acceptable terms. The loss of carriage on such distributors, or continued carriage on less favorable terms, could adversely affect, with respect to basic cable networks, revenues from subscriber fees and the ability to sell advertising and, with respect to premium subscription television networks, subscriber fee revenues. In addition, continued consolidation among cable and/or DTH distributors and vertical integration of such distributors into the cable or broadcast network business, could have an adverse effect on subscriber fees and advertising revenues, as Viacom s ability to launch new networks or maintain or obtain additional distribution for existing networks may be impacted by these factors.

Operating Results from Viacom s Motion Picture and Television Production Businesses Fluctuate Depending on the Costs of Production and Public Acceptance, Which Are Unpredictable

Operating results derived from Viacom s motion picture and television production businesses fluctuate depending primarily upon the cost of such productions and acceptance of such productions by the public, which are difficult to predict. Motion picture and television production has experienced cycles in which increased costs of talent, reduced availability of co-financing opportunities, and other factors have resulted in higher production costs. In addition, the commercial success of Viacom s motion picture and television productions depends upon the quality and acceptance of other competing productions, and the availability of alternative forms of entertainment and leisure time activities.

Any Impairment of Goodwill or Other Intangible Assets Required by SFAS 142 Could Have a Significant Effect on Viacom s Reported Net Earnings

In accordance with SFAS 142, Viacom tests goodwill and other intangible assets for impairment during the fourth quarter of each year, and on an interim date should factors or indicators become apparent that would require an interim test. A downward revision in the fair value of a reporting unit could result in an impairment of goodwill under SFAS 142 and a non-cash charge would be required. Such a charge could have a significant effect on Viacom s reported net earnings.

Blockbuster is currently performing an interim impairment test of its goodwill due to developments related to this exchange offer. The exchange ratio and the market value of Blockbuster shares at the time of this exchange offer will be two of the factors considered in determining the estimated fair value of Blockbuster for the interim impairment test. This test could result in the recognition of a material non-cash impairment charge to Viacom s and Blockbuster s reported net income for the third quarter of 2004. Blockbuster s goodwill balance was $2.6 billion at June 30, 2004.

Viacom Is Subject to Laws and Regulations That Are Subject to Interpretation or Change Which Could Adversely Impact Viacom

While Viacom seeks to ensure compliance with FCC indecency laws and regulations, the definition of indecency is subject to interpretation and there can be no assurance that employees of Viacom will not make decisions resulting in the broadcast of programming that is viewed by regulators or the public as not meeting such standards. Such programming could subject Viacom to regulatory review or investigation, fines, adverse publicity or other sanctions including the loss of station licenses. In addition, changes in laws and regulations, including in particular FCC ownership rules, could, directly or indirectly, adversely affect the operations and ownership of Viacom s properties.

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Piracy or Unauthorized Distribution of Viacom s Copyrighted Materials Could Negatively Affect Viacom s Operations

Technology developments, including digital copying and file compression, and the growing penetration of high-bandwidth Internet connections, increase the threat of content piracy by making it easier to duplicate and widely distribute pirated material. Viacom takes actions to vigorously enforce its rights and protect its copyrighted materials and products; however, there can be no assurance that it will be successful in preventing the distribution of pirated content. Increased piracy of Viacom s copyrighted materials could negatively affect its operations and financial results.

Certain Technological Advances and Changing Consumer Preferences Could Adversely Affect Viacom s Businesses

Recently introduced technologies, such as personal video recorders, video-on-demand, DVD recorders, and the availability of television and motion picture programming over the Internet, are becoming more widely available at reduced cost to consumers. While these technologies create opportunities for Viacom, changing consumer preferences for entertainment products, and the ability to skip commercial advertising or to watch shows at times chosen by the consumer, could make television less attractive to advertisers, reduce the amounts distributors are prepared to pay for programming or otherwise have an adverse effect on Viacom s businesses.

Viacom Has Contingent Liabilities Related to Discontinued Businesses

Viacom has contingent liabilities related to discontinued businesses, including environmental liabilities, liabilities related to illnesses of former employees, asbestos liabilities and other pending and threatened litigation. While the pending or threatened litigations and environmental and other liabilities should not have a material adverse effect on Viacom, there can be no assurance in this regard. Viacom will also have certain liabilities in connection with the divestiture of Blockbuster, including under the IPO agreement, the amended and restated release and indemnification agreement and the amended and restated tax matters agreement, each of which is further described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster beginning on page 106.

Viacom s Operating Results Fluctuate Due to Timing and Availability of Theatrical and Home Video Releases and the Recording of License and Syndication Fees for Television Programming

Viacom s operating results fluctuate due to the timing and availability of theatrical and home video releases, as well as the recording of license fees for television exhibition of motion pictures and for syndication and basic cable exhibition of television programming in the period that the products are available for such exhibition.

National Amusements Has Voting Control of Viacom and Is in a Position to Control the Outcome of Corporate Actions that Require Stockholder Approval

National Amusements, through its beneficial ownership of Viacom s class A common stock, has voting control of Viacom. Mr. Sumner M. Redstone, the controlling stockholder of National Amusements, is the chairman of the board of directors and chief executive officer of Viacom.

National Amusements is in a position to control the outcome of corporate actions that require stockholder approval, including the election of directors, issuance of securities and transactions involving a change of control.

Viacom is Functioning Under New Operating Management and With a Management Structure that is Unproven

On June 1, 2004, Viacom announced the appointment of Tom Freston and Leslie Moonves as co-presidents and co-chief operating officers, replacing the then-current president and chief operating officer, Mel Karmazin.

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Until that time, Mr. Freston was the chairman and chief executive officer of Viacom s MTV Networks unit and Mr. Moonves was the chairman and chief executive officer of CBS. Until this recent management change, Viacom had a sole president and chief operating officer. Viacom does not have experience with a co-president and co-chief operating officer management structure, and there can be no assurance that the transition to this new management structure, or the new structure itself, will be successful.

Labor Difficulties Could Adversely Impact Viacom s Operations

In the operation of its businesses, Viacom engages the services of writers, directors, actors and others, which are subject to collective bargaining agreements. Work stoppages and/or higher costs in connection with these agreements could adversely impact Viacom s operations.

Viacom s Revenues May Fluctuate Based on the Seasonality of Certain of Its Businesses

Some of Viacom s businesses are seasonal. The home video retail business and the consumer publishing business are subject to increased periods of demand coinciding with summer and winter holidays, while a substantial majority of the theme parks operating income is generated from May through September. In addition, the home video and theme parks businesses revenues are influenced by weather. Viacom s advertiser-supported businesses experience fluctuations based on the timing of advertising expenditures by retailers.

Risk Factors Relating to Blockbuster s Business

Current Studio Pricing Policies Have Resulted in Increased Competition from Mass Merchant Retailers, Which Has Affected, and Will Continue to Affect, Consumer Rental and Purchasing Behavior. Blockbuster Cannot Control or Predict with Certainty Future Studio Decisions. Future Changes in Studio Pricing or Other Practices Could Negatively Impact Blockbuster s Profitability

Studio pricing for movies released to home video retailers historically was based on whether or not a studio desired to promote a movie for both rental and sale to the consumer, or primarily for rental, from the beginning of the home video distribution window. In order to promote a movie title for rental, the title would be released to home video retailers at a price that was too high to allow for an affordable sales price by the retailer to the consumer at the beginning of the home video distribution window. As rental demand subsided, the studio would reduce pricing in order to then allow for reasonably priced sales to consumers. Currently, substantially all DVD titles are released at a price to the home video retailer that is low enough to allow for an affordable sales price by the retailer to the consumer from the beginning of the home video distribution window. This sell-through pricing policy has led to increasing competition from other retailers, including mass merchants such as Wal-Mart, Best Buy, Circuit City and online retailers, who are able, due to the lower sell-through prices, to purchase DVDs for sale to consumers at the same time as traditional home video retailers, like Blockbuster, purchase both DVDs and VHS product for rental. In addition, some retailers sell movies at lower prices in order to increase overall traffic to their stores or businesses, and mass merchants may be more willing to sell at lower, or even below wholesale, prices because of the variety of their inventory. These factors have increased consumer interest in purchasing DVDs, which has reduced the significance of the VHS rental window.

Blockbuster believes that the increased consumer purchases are due in part to consumer interest in building DVD libraries of classic movies and personal favorites and that the studios will remain dependent on the traditional home video retailer to generate revenues for the studios from titles that are not classics or current box office hits. Blockbuster therefore believes the importance of the video rental industry to the studios will continue to be a factor in studio pricing decisions. However, Blockbuster cannot control or predict studio pricing policies with certainty, and

Blockbuster cannot assure you that consumers will not, as a result of further decreases in studio sell-through pricing and/or sustained or further depressed pricing by competitors, increasingly desire to purchase rather than rent movies. Personal DVD libraries could also cause consumers to rent or purchase fewer movies in the future. Blockbuster s profitability could, therefore, be negatively affected if, in light of any such consumer behavior, Blockbuster were unable to (i) grow its rental business; (ii) replace gross profits from generally higher-margin rentals with gross profits from increased sales of generally lower-margin sell-through product; or (iii) otherwise positively affect gross profits, such as through price increases or cost reductions. Blockbuster s ability to achieve one or more of these objectives is subject to risks, including the risk that Blockbuster may not be able to compete effectively with other DVD retailers, some of whom may have competitive advantages such as the pricing flexibility described above or favorable consumer perceptions regarding value.

In any wholesale pricing environment, the extent Blockbuster s profitability is dependent on its ability to enter into arrangements with the studios that effectively balance cost considerations and the number of copies of a title stocked by Blockbuster. Each type of arrangement provides different advantages and challenges for Blockbuster. For example, Blockbuster has benefited from sell-through pricing of DVDs because the lower cost associated with DVD product has resulted in higher rental margins than product purchased under Blockbuster s historical VHS revenue-sharing arrangements.

Blockbuster s profitability could be negatively affected if studios were to make other changes in their wholesale pricing policies, which could include pricing rental windows for DVDs or expanded exploitation by studios of the international two-tiered pricing laws, which allow studios to charge different prices for movies intended for rental use as opposed to retail sale. In addition, Blockbuster cannot predict what use the studios might make of current or future alternative supply methods, such as downloading to stores or consumers, or what impact the use of such supply chain changes by Blockbuster or its competitors might have on Blockbuster s profitability.

Blockbuster s Video Business Could Lose a Competitive Advantage if the Movie Studios Were to Shorten or Eliminate the Home Video Retailer Distribution Window or Otherwise Adversely Change Their Current Practices With Respect to the Timing of the Release of Movies to the Various Distribution Channels

A competitive advantage that home video retailers currently enjoy over most other movie distribution channels, except theatrical release, is the early timing of the home video retailer distribution window. After the initial theatrical release of a movie, studios generally make their movies available to home video retailers (for rental and retail, including by mass merchant retailers) for specified periods of time. This distribution window is typically exclusive against most other forms of non-theatrical movie distribution, such as pay-per-view, video-on-demand, premium television, basic cable and network and syndicated television. The length of this exclusive distribution window for home video retailers varies, but has traditionally ranged from 45 to 60 days for domestic video retailers. Thereafter, movies are made sequentially available to television distribution channels.

Blockbuster s business could be negatively affected if:

- the home video retailer distribution windows were no longer the first following the theatrical release;
- the length of the home video retailer distribution windows were shortened; or
- the home video retailer distribution windows were no longer as exclusive as they are now;

because newly released movies would be made available earlier on these other forms of non-theatrical movie distribution. As a result, consumers would no longer need to wait until after the home video retailer distribution window to view a newly released movie on these other distribution channels. According to industry statistics, more movies are now being released to pay-per-view at the shorter end of the distribution window range than at the longer end. In addition, many of the major movie studios have entered into various ventures to provide video-on-demand or similar services of their own. Increased studio participation in or support of these types of services could impact their decisions with respect to the timing and exclusivity of the home video retailer distribution window.

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Blockbuster believes that the studios have a significant interest in maintaining a viable home video retail industry. However, because the order, length and exclusivity of each window for each distribution channel is determined solely by the studio releasing the movie, Blockbuster cannot predict the impact, if any, of any future decisions by the studios. In addition, any consolidation or vertical integration of media companies to include both content providers and digital distributors could pose a risk to the continuation of the distribution window.

If the Average Sales Price for Blockbuster s Previously Rented Product Is Not at or Above an Expected Price, Blockbuster s Expected Gross Margins May Be Adversely Affected

To achieve Blockbuster s expected revenues and gross margins, Blockbuster needs to sell its previously rented product at or above an expected price. If the average sales price of Blockbuster s previously rented product is not at or above this expected price, Blockbuster s revenues and gross margins may be adversely affected. At the same time, it is important that Blockbuster maximize its overall rental stream through its allocation of store space. Blockbuster may need to turn its inventory of previously rented product more quickly in the future in order to make room in its stores for additional DVDs or new initiatives. Therefore, Blockbuster cannot assure you that in the future it will be able to sell, on average, its previously rented product at or above the expected price.

Other factors that could affect Blockbuster s ability to sell its previously rented product at expected prices include:

- consumer desire to own the particular movie or game;
- the amount of previously rented product or traded product available for sale by others to the public; and
- changes in the price of retail product by the studios or changes by other retailers, particularly the mass merchants mentioned above.

In addition, Blockbuster s sales of previously rented product, especially DVDs, compete with sales of newly released product that is priced for sell-through.

Blockbuster Intends to Invest Significantly in Its Business in 2004 and 2005 Which, Together With the Anticipated Weakness in the Rental Industry, Will Adversely Affect Its Profitability for Those Periods

Blockbuster believes its new initiatives will enable it to take advantage of emerging trends in home entertainment. However, some of Blockbuster s new initiatives are at the beginning of what Blockbuster believes are their potential growth curves and will involve significant start-up costs. Blockbuster s full-year 2004 financial results, including cash flows, will therefore be adversely impacted by the investment of approximately $90 million of incremental operating expenses and approximately $100 million of additional capital investments associated with the development and launch of its key growth initiatives, as well as by the anticipated continued weakness in the rental industry. Due to the changing dynamics of the rental market and the prospects of new business initiatives, Blockbuster is considering accelerating its investment spending. If Blockbuster decides to accelerate its investment spending or if its rental business is weaker than currently anticipated, Blockbuster anticipates a correlating further adverse impact on its financial results during 2004 and 2005.

Blockbuster s Financial Results Could Be Adversely Affected if Blockbuster Is Unable to Manage Its Retail Inventory Effectively or if Blockbuster Is Unable to Obtain or Maintain Favorable Terms from Its Suppliers

Blockbuster s purchasing decisions are influenced by many factors, including predictions of consumer demand, gross margin considerations and supplier product return policies. While much of Blockbuster s retail movie product in the United States, but not internationally, is returnable to vendors, the increased investment in inventory necessary to capitalize on the growing retail market increases Blockbuster s exposure to excess

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inventories in the event anticipated sales fail to materialize. In addition, returns of Blockbuster s games inventory, which is prone to obsolescence risks because of the nature of the industry, are subject to negotiation with vendors. The prevalence of multiple game platforms may make it more difficult for Blockbuster to accurately predict consumer demand with respect to video games. The nature of and market for Blockbuster s products, particularly games and DVDs, also makes them prone to risk of theft and loss. Blockbuster s operating results could suffer if it is not able to:

- obtain or maintain favorable terms from its suppliers with respect to such matters as product returns;
- maintain adequate copy depth to maintain customer satisfaction;
- control shrinkage resulting from theft or loss; or
- avoid significant inventory excesses that could force Blockbuster to sell products at a discount or loss.

Blockbuster Is Dependent on the Introduction and Supply of New and Enhanced Game Platforms and Software to Attract and Retain Its Video Game Customers

The home video game industry has traditionally been a hit-driven business characterized by short product lifecycles and frequent introduction of new products. Historically, the lifecycle for game platforms has been about five years, with a limited number of platforms achieving success at any given time. The industry typically grows with the introduction of new hardware platforms and games, but tends to slow prior to the introduction of new platforms, as consumers hold back their purchases in anticipation of new platform and game enhancements. Blockbuster s video games business is, therefore, dependent on the introduction of new and enhanced game platforms and software in order to attract and retain its video game customers. Delays in introduction, slower than expected hardware or software shipments or any failure to obtain sufficient product from Blockbuster s suppliers on favorable terms could negatively affect Blockbuster s business or increase fluctuations in Blockbuster s results of operations.

Piracy of the Products Blockbuster Offers or Disregard of Release Dates May Adversely Affect Its Operations

Although piracy is illegal, it is a real and significant threat to the home video industry. The development of technology, including digital copying and file compression, and the growing penetration of high-bandwidth Internet connections and ease of networking, increase the threat of piracy by making it easier to duplicate and widely distribute pirated content. Although piracy is a concern in the United States, it is having a more significant adverse affect on the home video industry in international markets. Blockbuster cannot assure you that movie studios and others with rights in the product will take steps to enforce their rights against piracy or that they will be successful in preventing the distribution of pirated content. Increases in piracy could continue to negatively affect Blockbuster s revenues. In addition, when the studios distribution licensees disregard the studios release dates and release product to home video retailers other than Blockbuster before the release date, Blockbuster could be adversely affected. Blockbuster cannot assure you that the studios can or will control such distribution licensees, particularly international ones.

Blockbuster Cannot Predict the Impact that New or Improved Technologies or Video Formats, Alternative Methods of Product Delivery or Changes in Consumer Behavior Facilitated by These Technologies or Formats and Alternative Methods of Product Delivery May Have on Its Business

Advances in technologies such as video-on-demand, new video formats, downloading or alternative methods of product delivery or certain changes in consumer behavior driven by these or other technologies and methods of delivery could have a negative effect on Blockbuster s business. In particular, Blockbuster s business could be impacted if:

- newly released movies were to be made widely available by the studios to these technologies or these formats at the same time or before they are made available to home video retailers for rental; and

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these technologies or new formats were to be widely accepted by consumers.

Blockbuster has been experiencing declining rental transactions due to increasing competition from various home entertainment alternatives such as retail, cable, satellite, online services and traditional competition. It is anticipated that product offering, promotional activity and price will become increasingly important as Blockbuster tries to differentiate itself in this competitive environment.

The widespread availability of additional channels on satellite and digital cable systems may significantly reduce public demand for Blockbuster s products. Advances in direct broadcast satellite and cable technologies may adversely affect public demand for video store rentals. If direct broadcast satellite and digital cable were to become more widely available and accepted, this could cause a smaller number of movies to be rented if viewers were to favor the expanded number of conventional channels and expanded content, including movies, specialty programming and sporting events, offered through these services. If this were to occur, it could have a negative effect on Blockbuster s video store business. Direct broadcast satellite providers transmit numerous channels of programs by satellite transmission into subscribers homes. In addition, cable providers are taking advantage of digital technology to transmit many additional channels of television programs over cable lines to subscribers homes.

Because of the increased availability of channels, direct broadcast satellite and digital cable providers have been able to enhance their pay-per-view business by:

- substantially increasing the number and variety of movies they can offer their subscribers on a pay-per-view basis; and

- providing more frequent and convenient start times for the most popular movies.

If these enhanced pay-per-view services were to become more widely available and accepted, pay-per-view purchases could significantly increase. Pay-per-view allows the consumer to avoid trips to the video store for rentals and returns of movies, which also eliminates the chance they will incur additional costs for keeping a movie beyond its initial rental term. However, newly released movies are currently made available by the studios for rental prior to being made available on a pay-per-view basis. Pay-per-view also does not allow the consumer to start, stop and rewind the movie or fully control start times. Increases in the size of the pay-per-view market could lead to an earlier distribution window for movies on pay-per-view if the studios were to perceive this to be a better way to maximize their revenues.

Blockbuster s video store business must compete with the availability of video-on-demand and similar or other technologies, and alternative methods of delivery, which may significantly reduce the demand for Blockbuster s products or otherwise negatively affect Blockbuster s business. Any method for delivery of movies or games that serves as an alternative to obtaining that content in Blockbuster s stores can impact its business. Examples of delivery methods that are currently available on a limited or test basis, but that could impact Blockbuster s business, are video-on-demand, delivery by mail and online gaming. In addition, technological advances with personal video recorders and disposable DVDs could impact Blockbuster s business.

Video-on-demand. Some digital cable providers and a limited number of Internet content providers have implemented technology referred to as video-on-demand. This technology transmits movies and other entertainment content on demand with interactive capabilities such as start, stop and rewind. In addition, some cable providers have introduced subscription video-on-demand, which allows consumers to pay a flat fee per month for access to a selection of content with fast-forward, stop and rewind capabilities. In addition to being available from most major cable providers in select markets, video-on-demand has been introduced over the Internet, as high-speed Internet access has greatly increased the speed and quality of viewing content, including feature-length movies, on personal computers. Blockbuster has previously tested an entertainment-on-demand service, which delivered video-on-demand to consumers television sets via digital subscriber lines and fiber optic connections, and Blockbuster conducts similar tests from time to time. The future of video-on-demand services, including services provided by Blockbuster, is uncertain. Video-on-demand could have a negative effect on Blockbuster s video store business if:

- video-on-demand could be profitably provided at a reasonable price; and

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newly released movies were made available at the same time, or before, they were made available to the home video retailers for rental.

Delivery by mail. Some companies, including Blockbuster, offer consumers the ability to purchase or rent movies and games through the Internet, with delivery by mail. This includes various online rental subscription programs, which generally do not have extended viewing fees. The convenience offered by this method of product delivery, and the attractiveness to consumers of having no extended viewing fees, could reduce the number of consumers who obtain product from Blockbuster s stores.

Disposable DVDs; personal video recorders. The technology exists for retailers to offer disposable DVDs, which would allow a consumer to view a DVD for an unlimited number of times during a specified period of time, at the end of which the DVD becomes unplayable as a result of chemistry technology. Another technology that could have an effect on Blockbuster s video store business is the personal video recorder. A personal video recorder allows consumers to automatically and digitally record programs to create a customized television line- up for viewing at any time. This technology also enables consumers to pause, rewind, instant replay and playback in slow motion any live television broadcast. This technology is also increasingly being used to download movies in a form known as Subscriber Video on Demand. Blockbuster cannot predict the impact that these technologies will have on its business.

Blockbuster Could Incur Substantial Costs Defending Itself in any Suits Brought Against Blockbuster Asserting Patent or Other Intellectual Property Rights

Netflix, Blockbuster s primary domestic competitor in online rental, recently stated that it had obtained a patent covering online rental subscription (U.S. Patent No. 6,584,450). While Blockbuster cannot predict with certainty the scope, validity and enforceability of this or any other patent, Blockbuster could nevertheless incur substantial costs in defending itself in any suits brought against Blockbuster asserting patent or other intellectual property rights. If the outcome of any such litigation were to be unfavorable to Blockbuster, its business and results of operations could be materially adversely affected. Blockbuster is not currently aware of any patent that it believes will materially adversely affect its ability to pursue its current and planned business operations.

Blockbuster Has Had Limited Experience with Certain New Customer Proposition Initiatives and Cannot Assure You When or if These or Future Initiatives Will Have a Positive Impact on Blockbuster s Profitability

Blockbuster has implemented and will continue to implement initiatives that are designed to enhance efficiency and customer convenience in its stores, and Blockbuster is also continuing to test and implement initiatives such as in-store and online subscription-based rentals, games store-in-stores and trading concepts. The implementation of these and other similar initiatives in Blockbuster s stores will involve significant investments by Blockbuster of time and money. Because Blockbuster has limited experience with such new initiatives, Blockbuster cannot assure you that they will be successful or profitable either over the short or long term, including success in retaining customers. Blockbuster s ability to effectively and timely prioritize and implement its initiatives will also affect when and if they will have a positive impact on Blockbuster s profitability.

Any Failure or Inadequacy of Blockbuster s Information Technology Infrastructure Could Harm Its Business

The capacity, reliability and security of Blockbuster s information technology hardware and software infrastructure and Blockbuster s ability to expand and update this infrastructure in response to its growth and changing needs are important to the implementation of Blockbuster s new customer proposition initiatives, as well as the operation of Blockbuster s business generally. In connection with Blockbuster s growth and to avoid technology obsolescence and enable future cost savings and customer enhancements, Blockbuster is continually updating its information technology infrastructure. In addition, Blockbuster intends to add new features and functionality to its products, services and systems that could result in the need to develop, license or integrate additional technologies. Blockbuster s inability to add additional software and hardware or to upgrade its technology infrastructure could have adverse consequences, which could include the delayed implementation of Blockbuster s new customer proposition initiatives, service interruptions, impaired quality or speed of the users experience and the diversion of development resources. Blockbuster s failure to provide new features or functionality to its systems also could result in these consequences. Blockbuster may not be able to effectively upgrade and expand its systems, or add new systems, in a timely manner or to integrate smoothly any newly developed or purchased technologies with its existing systems. These difficulties could harm or limit Blockbuster s ability to improve its business.

Newly Opened Stores May Adversely Affect the Profitability of Pre-Existing Stores

Blockbuster expects to open company-operated stores in markets where it already has significant operations in order to maximize its market share within these markets. Although Blockbuster has a store development approach that is designed to minimize the effect of newly opened stores on pre-existing stores, Blockbuster cannot assure you that these newly opened stores will not adversely affect the revenues and profitability of those pre-existing stores in any given market.

Blockbuster May Be Required to Make Lease Payments Related to Blockbuster Music Stores that Were Sold to Wherehouse Entertainment Inc., Which Is in Chapter 11 Bankruptcy

In October 1998, about 380 BLOCKBUSTER MUSIC stores were sold to Wherehouse Entertainment Inc., which is referred to in this Prospectus-Offer to Exchange as Wherehouse. Some of the leases transferred in connection with this sale had previously been guaranteed either by Viacom or its affiliates. In connection with Blockbuster s initial public offering, Blockbuster entered into an Initial Public Offering and Split-Off Agreement with Viacom, pursuant to which Blockbuster agreed to indemnify Viacom with respect to any amount paid under these guarantees. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. On January 21, 2003, Wherehouse filed a petition for protection under Chapter 11 of U.S. bankruptcy law. Based on information regarding lease and guarantee expirations originally available in connection with the Wherehouse bankruptcy, Blockbuster estimated that it was contingently liable for approximately $36 million. Of this amount, Blockbuster recorded a reserve of $18.7 million during the fourth quarter of 2002, which represented Blockbuster s estimate of the lease guarantee obligation at that time. During 2003 and the six months ended June 30, 2004, Blockbuster paid approximately $10.7 million associated with the lease guarantee obligation. In addition, during the fourth quarter of 2003, Blockbuster reduced the reserve by $2.6 million, resulting in a remaining reserve balance of $5.4 million at June 30, 2004, which Blockbuster believes is appropriate based upon its most current information regarding the Wherehouse bankruptcy proceedings. Any payments Blockbuster is required to make under the guarantees in excess of its recorded reserve would negatively affect Blockbuster s results of operations.

Blockbuster s Business Model Is Substantially Dependent on the Functionality of Its Centralized Domestic and International Distribution Centers

Blockbuster s domestic distribution system is centralized. This means that Blockbuster ships nearly all of the products to its U.S. company-operated stores through Blockbuster s distribution center. If Blockbuster s distribution center were to become non-operational for any reason, Blockbuster could incur significantly higher costs and longer lead times associated with distributing Blockbuster s movies and other products to its stores. In international markets, there are a variety of distribution methodologies utilized with similar risks to those in the United States.

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Blockbuster s Financial Results Could be Negatively Impacted by any Impairment of Goodwill or Other Intangible Assets Required by SFAS 142

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, Blockbuster tests goodwill and other intangible assets for impairment during the fourth quarter of each year and on an interim date should factors or indicators become apparent that would require an interim test. Blockbuster is currently performing an interim impairment test of its goodwill due to developments related to this exchange offer. The exchange ratio and the market value of Blockbuster shares at the time of this exchange offer will be two of the factors considered in determining the estimated fair value of Blockbuster for the interim impairment test. This test could result in the recognition of a material non-cash impairment charge to Blockbuster s reported net income for the third quarter of 2004. Blockbuster s goodwill balance was $2.6 billion at June 30, 2004.

Blockbuster s Financial Results Could be Negatively Impacted by the Application of Future Accounting Policies

Blockbuster s financial results could be negatively impacted by the application of future accounting policies. For example, Blockbuster could be negatively impacted by the required adoption of new accounting pronouncements such as the Financial Accounting Standards Board Exposure Draft, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95*, or pending legislation such as H.R. 3574, *The Stock Option Accounting Reform Act*.

Blockbuster Is Subject to Governmental Regulation Particular to the Retail Home Video Industry and Changes in U.S. or International Laws May Adversely Affect Blockbuster

Any finding that Blockbuster has been, or is, in noncompliance with respect to the laws affecting its business could result in, among other things, governmental penalties or private litigant damages, which could have a material adverse effect on Blockbuster. Blockbuster is subject to various international and U.S. federal and state laws that govern the offer and sale of Blockbuster s franchises because Blockbuster acts as a franchisor. In addition, because Blockbuster operates video stores and develops new video stores, Blockbuster is subject to various international and U.S. federal and state laws that govern, among other things, the disclosure and retention of Blockbuster s video rental records and access and use of its video stores by disabled persons, and are subject to various state and local advertising, consumer protection, licensing, zoning, land use, construction, environmental, health and safety, minimum wage and labor and other employment regulations. The international home video and video game industry varies from country to country due to, among other things, legal standards and regulations, such as those relating to foreign ownership rights; unauthorized copying; intellectual property rights; movie ratings, which in many countries are legal standards unlike the voluntary standards of the United States; labor and employment matters; trade regulation and business practices; franchising and taxation; and format and technical standards. Blockbuster s obligation to comply with, and the effects of, the above governmental regulations are increased by the magnitude of Blockbuster s operations.

There is also a significant amount of U.S. state and local and international regulation governing trading activities. As Blockbuster continues to develop its movie and games trading model, Blockbuster will incur additional costs to comply with these regulations. In addition, efforts to comply with these regulations could delay Blockbuster s ability to implement its trading and games initiatives on its proposed schedule.

Changes in existing laws, including environmental and employment laws, adoption of new laws or increases in the minimum wage, may increase Blockbuster s costs or otherwise adversely affect Blockbuster. For example, the repeal or limitation in the United States of certain favorable copyright laws would have an adverse impact in the United States on Blockbuster s rental business. In August 2002, the U.S. Copyright Office released its study on the first sale doctrine in the digital age and determined that no changes were warranted. Similarly, the adoption or expansion of laws in any other country to allow copyright owners to charge retailers more for rental product than for sell-through product could have an adverse impact on Blockbuster s rental business in that country.

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Any Acquisitions Blockbuster Makes Involve a Degree of Risk

Blockbuster has in the past, and may in the future, engage in acquisitions to continue expansion of its domestic and international rental and retail presence. For example, during the past several years, Blockbuster made asset acquisitions of stores in the United States and in markets outside of the United States. In addition, during 2002, Blockbuster acquired all of the capital stock of the second largest games retailer in the United Kingdom and purchased the 51% interest that Blockbuster did not already own in its joint venture based in Italy. If these or any future acquisitions are not successfully integrated with Blockbuster s business, its ongoing operations could be adversely affected. Additionally, acquisitions may not achieve desired profitability objectives or result in any anticipated successful expansion of the acquired businesses or concepts. Although Blockbuster reviews and analyzes assets or companies it acquires, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although Blockbuster attempts to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, Blockbuster cannot assure you that it can obtain such provisions in its acquisitions or that they will fully protect Blockbuster from unforeseen costs of the acquisition.

As a Result of the Payment of the Special Distribution Blockbuster s Leverage Will Increase and Blockbuster s Ability to Make Payments on its Bank Debt and Senior Subordinated Notes will Depend on Blockbuster s Future Operating Performance Which Will Depend on a Number of Factors That are Outside of Blockbuster s Control

Blockbuster incurred additional debt of $950 million under its new credit agreement and through the issuance of the senior subordinated notes in order to pay the special distribution to its stockholders and to finance transaction costs and expenses in connection with the split-off and the special distribution. As of June 30, 2004, on a pro forma basis after giving effect to the split-off, this exchange offer, the share conversion, the special distribution, entering into the new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco, the borrowings under the new credit agreement, the issuance of the senior subordinated notes and the application of the borrowings and proceeds therefrom and the payment of fees and expenses related to the foregoing, Blockbuster would have had total debt of approximately $1,095.9 million, or approximately 30% of Blockbuster s total capitalization. In addition, Blockbuster has provided (a) the letters of credit in the aggregate amount of $150 million to Viacom at Viacom s expense to support Blockbuster s reimbursement obligations with respect to any payments that may be made by Viacom, Viacom International Inc. or their affiliates under certain of Blockbuster s lease obligations, which are collectively referred to in this Prospectus Offer to Exchange as the Viacom letter of credit, and (b) other letters of credit issued in the ordinary course of business. See the section entitled Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information beginning on page 99. Blockbuster s debt service obligations with respect to this new debt will have an adverse impact on its earnings and cash flow for as long as the indebtedness is outstanding. This adverse effect on earnings and cash flow could negatively impact Blockbuster s stock price.

Blockbuster s ability to make principal and interest payments on its bank debt and payments on the senior subordinated notes will depend on Blockbuster s future operating performance, which will depend on a number of factors, many of which are outside Blockbuster s control. The degree to which Blockbuster is leveraged could have other important consequences, including the following:

- Blockbuster must dedicate a substantial portion of its cash flows from operations to the payment of its indebtedness, reducing the funds available for future working capital requirements, capital expenditures, acquisitions or other general corporate requirements;
- some of Blockbuster s borrowings are, and will continue to be, at variable rates of interest, which may result in higher interest expense in the event of increases in interest rates;
- Blockbuster may be more highly leveraged than some of its competitors, which could place it at a competitive disadvantage;

Blockbuster may be more vulnerable to adverse economic and industry conditions;

- Blockbuster s debt level could limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;

- Blockbuster s indebtedness may make it more difficult for Blockbuster to pay its debts as they become due during negative economic and market industry conditions because if its revenues decrease due to general economic or industry conditions, it may not have sufficient cash flow from operations to make its scheduled debt payments; and

- Blockbuster s indebtedness may limit its ability to borrow additional funds.

Based upon current levels of operations and anticipated growth, Blockbuster expects to be able to generate sufficient cash flow to make all of the principal and interest payments when such payments are due under Blockbuster s new credit agreement and under the indenture governing Blockbuster s senior subordinated notes, but there can be no assurance that Blockbuster will be able to repay such borrowings. See the sections entitled Description of Other Material Agreements New Blockbuster Credit Agreement and Description of Other Material Agreements Indenture Governing 9% Senior Subordinated Notes Due 2012 beginning on pages 149 and 151, respectively.

The Terms of Blockbuster s New Credit Agreement and the Indenture Impose Many Restrictions on Blockbuster. A Failure by Blockbuster to Comply With Any of These Restrictions Could Result in Acceleration of Blockbuster s Debt. Were this to Occur, Blockbuster Might Not Have Sufficient Cash to Pay Its Accelerated Indebtedness

The operating and financial restrictions and covenants in Blockbuster s debt agreements, including the new credit agreement and the indenture governing the senior subordinated notes, may adversely affect Blockbuster s ability to finance future operations or capital needs or to engage in new business activities. The new credit agreement and/or the indenture restrict Blockbuster s ability to, among other things:

- repurchase or redeem capital stock or subordinated indebtedness;

- pay dividends or make distributions to stockholders;

- incur or guarantee additional indebtedness;

- create liens;

- engage in sale and leaseback transactions;

- amend or otherwise alter debt and other material agreements;

- engage in mergers, acquisitions or asset sales; and

- transact with affiliates.

In addition, the new credit agreement requires Blockbuster to maintain certain financial ratios. As a result of these covenants and ratios, Blockbuster is limited in the manner in which it can conduct its business, and may be unable to engage in favorable business activities or finance future operations or capital needs. Accordingly, these restrictions may limit Blockbuster s ability to successfully operate its business. A failure to comply with the restrictions contained in the new credit agreement or the indenture, or to maintain the financial ratios in the new credit agreement, could lead to an event of default that could result in an acceleration of the indebtedness. Blockbuster cannot assure you that its future operating results will be sufficient to ensure compliance with the covenants in the new credit agreement, the indenture or other indebtedness or to remedy any such default. In addition, in the event of an acceleration, Blockbuster may not have or be able to obtain sufficient funds to make any accelerated payments. See the sections entitled Description of Other Material Agreements New Blockbuster Credit Agreement and Description of Other Material Agreements Indenture Governing 9% Senior Subordinated Notes Due 2012 beginning on pages 149 and 151, respectively.

Blockbuster s Obligations Pursuant to the IPO Agreement Relating to Certain Real Estate Leases Guaranteed by Viacom May Adversely Affect Blockbuster s Ability to Negotiate Renewals or Modifications to a Subset of Such Leases

The IPO agreement imposes various restrictions and limitations on Blockbuster s ability to renew or modify, in a manner that increases Viacom s potential liability, a subset of the leases guaranteed by Viacom, which could make it more difficult and expensive, and in some cases impossible, to renew or modify certain of these leases. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106.

Blockbuster s Obligations Pursuant to the IPO Agreement to Maintain a Letter of Credit in Favor of Viacom Will Reduce Blockbuster s Borrowing Capacity

Pursuant to the IPO agreement, Blockbuster has provided the Viacom letter of credit for the benefit of Viacom to support Viacom s potential liability for certain real estate lease obligations of Blockbuster. The Viacom letter of credit reduces Blockbuster s borrowing capacity under the terms of its new credit agreement by $150 million. Until the Viacom letter of credit or any renewal thereof is terminated, Blockbuster anticipates any future or additional lenders may treat Blockbuster s letter of credit obligation as if it were outstanding indebtedness when assessing Blockbuster s borrowing capacity. Furthermore, if Blockbuster is unable to renew or otherwise replace the Viacom letter of credit prior to its expiration as required by the IPO agreement, Viacom has the right to draw down the full amount of the Viacom letter of credit, which would cause Blockbuster to borrow funds under its new credit agreement to reimburse the letter of credit bank. In either case, any resulting reduction in borrowing capacity could restrict or prevent Blockbuster from being able to borrow amounts necessary to engage in favorable business activities, consummate strategic acquisitions or otherwise fund capital needs. See the sections entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement and Description of Other Material Agreements New Blockbuster Credit Agreement beginning on pages 106 and 149, respectively.

If Blockbuster Loses Key Senior Management or is Unable to Attract and Retain the Talent Required for its Business, its Operating Results Could Suffer

Blockbuster s performance depends largely on the efforts and abilities of its members of senior management. These executives have substantial experience and expertise in Blockbuster s business and have made significant contributions to its growth and success. The unexpected loss of services of one or more of these individuals could have an adverse effect on Blockbuster s business. Blockbuster will need to attract and retain additional qualified personnel and develop, train and manage an increasing number of management-level employees. Blockbuster cannot assure you that it will be able to attract and retain personnel as needed in the future. See the section entitled Interests of Certain Persons Blockbuster Employment Arrangements beginning on page 122.

Blockbuster Is Subject to Various Litigation Matters Which Could, If Judgments Were to be Rendered Against Blockbuster, Have an Adverse Effect on Blockbuster s Operating Results

Blockbuster is a defendant in various lawsuits. If judgments were to be rendered against Blockbuster in these lawsuits, Blockbuster s results of operations could be adversely affected. See Annex A Item 3. Legal Proceedings and Annex B Item 1. Consolidated Financial Statements Note 5 Commitments and Contingencies for a discussion of litigation matters relating to Blockbuster s business.

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Risk Factors Relating to this Exchange Offer

Your Investment Will Be Subject to Different Risks After this Exchange Offer Regardless of Whether You Elect to Participate in This Exchange Offer

Your investment will be subject to different risks as a result of this exchange offer, regardless of whether you tender all, some or none of your shares of Viacom class A or class B common stock.

If you exchange all of your shares of Viacom class A or class B common stock and this exchange offer is fully subscribed, you will no longer have an interest in Viacom, but instead will directly own an interest in Blockbuster. As a result, your investment will be subject exclusively to risks associated with Blockbuster and not risks associated with Viacom.

If you exchange some, but not all, of your shares of Viacom class A or class B common stock regardless of whether this exchange offer is fully subscribed, the number of shares of Viacom common stock you own will decrease (unless you acquire Viacom class A or class B common stock other than through this exchange offer), while the number of shares of Blockbuster common stock you own will increase. As a result, your investment will be subject to risks associated with both Viacom and Blockbuster.

If you do not exchange any of your shares of Viacom class A or class B common stock and this exchange offer is fully subscribed, your interest in Viacom will increase on a percentage basis, while your indirect ownership in Blockbuster will be eliminated. As a result, your investment will be subject exclusively to risks associated with Viacom and not risks associated with Blockbuster because shares of Viacom class A or class B common stock will no longer include an investment in the Blockbuster business.

If you remain a stockholder of Viacom following the completion of this exchange offer and Viacom completes the spin-off described under the section entitled Spin-Off and Dispositions of Blockbuster Common Stock on page 83, you will receive shares of Blockbuster common stock (and cash in lieu of fractional shares). As a result, your investment will be subject to the risks associated with both Viacom and Blockbuster.

Whether or not you tender your shares of Viacom class A or class B common stock, the shares you hold after the completion of this exchange offer will be in a company that is different from the company in which you held shares before the completion of this exchange offer. See the sections entitled Viacom Unaudited Pro Forma Consolidated Condensed Financial Information and Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information beginning on pages 90 and 99, respectively.

After this Exchange Offer, Blockbuster Will No Longer Have Access to the Financial Strength and Resources of Viacom

As a Viacom subsidiary, Blockbuster has had access to Viacom s financial strength and extensive network of business relationships with companies around the world. Blockbuster has drawn on this resource in developing its own relationships and contacts and in participating in Viacom s relationships with third parties. After the completion of this exchange offer, Blockbuster will be an independent company and will no longer be able to benefit from Viacom s financial strength and resources to the same extent that it could as a majority-owned subsidiary of Viacom.

In Connection with this Exchange Offer, Blockbuster Must Replace Services Provided by Viacom

Prior to Blockbuster s initial public offering, Viacom and Blockbuster entered into a number of agreements whereby Viacom agreed to provide certain services to Blockbuster. In connection with this exchange offer, Viacom and Blockbuster have amended these agreements. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster beginning on page 106 for a description of these agreements. Pursuant to the amended and restated transition services agreement, Viacom will no longer provide certain of these services as of the completion of this exchange offer and no longer provide certain other services as of 90 days following the completion of this exchange offer. Blockbuster cannot assure you that it will be able to obtain replacement services on acceptable terms, if at all, once these services are no longer provided by Viacom.

Change of Control Provisions in Blockbuster Contracts Could Adversely Impact Blockbuster

As a result of the completion of this exchange offer and any spin-off, more than 80% of the voting control of Blockbuster will be transferred. Under the terms of some of Blockbuster s leases and other contracts, this transfer may constitute an assignment by, or be considered a change of control of, Blockbuster. The failure to obtain consents under a material number of these contracts may adversely affect Blockbuster s financial performance or results of operations.

The Historical Financial Information of Viacom and Blockbuster May Not Be Indicative of Their Results as Separate Companies

The historical and pro forma financial information of Viacom and Blockbuster presented in, or incorporated by reference into, this document may not necessarily reflect what the results of operations, financial condition and cash flows of each would have been had the companies been independent entities pursuing independent strategies during the periods presented. As a result, historical financial information is not necessarily indicative of future results of operations, financial condition and cash flows of either Viacom or Blockbuster.

A Trading Market May Not Develop for the Shares of Blockbuster Class B Common Stock, Which May Adversely Affect the Market Price

There is currently no trading market for Blockbuster class B common stock, and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. Blockbuster class A common stock is currently listed on the New York Stock Exchange under the symbol BBI. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B. Viacom and Blockbuster cannot predict the prices at which the Blockbuster class A or class B common stock will trade after this exchange offer. The exchange ratio has been determined after discussions with Bear Stearns and Goldman Sachs, the co-dealer managers and Viacom s financial advisors for this exchange offer, and may not bear any relationship to the market price at which the Blockbuster class A or class B common stock will trade after this exchange offer. See the section entitled The Exchange Offer Terms of this Exchange Offer on page 71 for a discussion of the factors that were considered in determining the exchange ratio in this exchange offer.

This Exchange Offer and Related Transactions Will Result in a Substantial Amount of Blockbuster Class A and Class B Common Stock Held by Viacom Entering the Market, Which May Adversely Affect the Market Price of Blockbuster s Class A and Class B Common Stock. The Prior Performance of Blockbuster s Class A Common Stock May Not Be Indicative of its Performance After this Exchange Offer

Prior to the split-off, Blockbuster was a majority-owned subsidiary of Viacom and only approximately 37.1 million shares of Blockbuster class A common stock (or 20.5% of the total equity value of Blockbuster) were publicly traded. In addition to offering 72 million shares of Blockbuster class B common stock and 72 million shares of converted class A common stock in this exchange offer, Viacom intends to dispose of approximately 3.6 million shares of Blockbuster class A common stock it acquired through open market purchases in order to maintain U.S.

federal income tax consolidation with Blockbuster. Viacom intends to contribute all of these shares to the Viacom Pension Plan prior to the completion of this exchange offer. Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan. Following this exchange offer and any such resales, assuming this exchange offer is fully subscribed, 100% of the total equity of Blockbuster will be publicly traded. The distribution of such a large number of shares of Blockbuster class A

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common stock and Blockbuster class B common stock could adversely affect the market prices of Blockbuster class A and class B common stock. In addition, prior performance of Blockbuster s class A common stock may not be indicative of the performance of Blockbuster s common stock after this exchange offer.

There May Be an Adverse Effect on the Price of Blockbuster Class A Common Stock Due to Disparate Voting Rights of Blockbuster Class A Common Stock and Blockbuster Class B Common Stock and, Possibly, Differences in the Liquidity of the Two Classes

The differential in the voting rights of Blockbuster class A and class B common stock could adversely affect the price of the Blockbuster class A common stock to the extent that investors or any potential future purchaser of Blockbuster common stock ascribe value to the superior voting rights of the Blockbuster class B common stock. The holders of Blockbuster class A and class B common stock generally have identical rights except that holders of Blockbuster class A common stock are entitled to one vote per share while holders of Blockbuster class B common stock are currently entitled to five votes per share. After completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Holders of Blockbuster class A and class B common stock are entitled to separate class votes on amendments to Blockbuster s certificate of incorporation that would alter or adversely affect the powers, preferences or special rights of the shares of their respective classes. In addition, it is possible that differences in the liquidity between the two classes may develop, which could result in price differences.

Blockbuster s Stock Price May Fluctuate Significantly Following the Split-Off, and You Could Lose All or Part of Your Investment as a Result

The price of Blockbuster class A and class B common stock may fluctuate significantly following this exchange offer as a result of many factors in addition to those discussed in the two preceding risk factors. These factors, some or all of which are beyond Blockbuster s control, include:

- actual or anticipated fluctuations in Blockbuster s operating results;
- changes in expectations as to Blockbuster s future financial performance or changes in financial estimates of securities analysts;
- success of Blockbuster s operating and growth strategies;
- investor anticipation of strategic and technological threats, whether or not warranted by actual events;
- operating and stock price performance of other comparable companies; and
- realization of any of the risks described in these risk factors.

In addition, the stock market recently has experienced extreme volatility that often has been unrelated or disproportionate to the operating performance of particular companies. These broad market and industry fluctuations may adversely affect the trading price of Blockbuster class A and class B common stock, regardless of Blockbuster s actual operating performance.

Blockbuster s Anti-takeover Provisions May Delay or Prevent a Change of Control of Blockbuster, Which Could Adversely Affect the Price of Blockbuster Class A and Class B Common Stock

The existence of some provisions in Blockbuster s corporate documents and Delaware law may delay or prevent a change in control of Blockbuster, which could adversely affect the price of Blockbuster class A and class B common stock. Blockbuster s certificate of incorporation and Blockbuster s bylaws contain some provisions that may make the acquisition of control of Blockbuster more difficult, including provisions relating to the nomination, election and removal of directors, the structure of the board of directors and limitations on actions by Blockbuster stockholders. In addition, Delaware law also imposes some restrictions on mergers and other business combinations between Blockbuster and any holder of 15% or more of its outstanding class A or class B common stock. See the sections entitled Description of Capital Stock of Blockbuster and Comparison of Stockholder Rights beginning on pages 135 and 143, respectively, for a summary of these anti-takeover provisions.

The Tax Matters Agreement Prohibits Blockbuster from Engaging in Certain Corporate Transactions and Blockbuster May Not Have Adequate Funds to Perform its Indemnity Obligations Under this Agreement

Viacom and Blockbuster have entered into an amended and restated tax matters agreement, which requires, among other things, that, until two years after the completion of this exchange offer or, if applicable, the spin-off, Blockbuster cannot voluntarily enter into certain transactions, including certain merger transactions or transactions involving the sale of a significant amount of its capital stock or assets, without Viacom s consent. In addition, Blockbuster has agreed under this tax matters agreement to indemnify Viacom for any tax liability incurred as a result of the failure of this exchange offer and, if applicable, the spin-off to qualify as a tax-free transaction due to a takeover of Blockbuster or any other transaction involving Blockbuster s capital stock, assets or businesses, regardless of whether such transaction is within Blockbuster s control. Blockbuster may not, however, have adequate funds to perform these indemnification obligations. These restrictions and potential liabilities may make Blockbuster less attractive to a potential acquiror and reduce the possibility that an acquiror will propose or seek to effect certain transactions with Blockbuster during the restricted two-year period. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Tax Matters Agreement beginning on page 115.

Market Prices for Shares of Viacom Class A or Class B Common Stock May Decline Following the Completion of this Exchange Offer

Investors may purchase shares of Viacom class A or class B common stock in order to participate in this exchange offer, which may have the effect of artificially raising market prices for shares of Viacom class A or class B common stock during the pendency of this exchange offer. Following the completion of this exchange offer, the market prices for shares of Viacom class A or class B common stock may decline because any exchange offer-related demand for shares of Viacom class A or class B common stock will cease. Furthermore, persons who were unable to exchange their shares of Viacom class A or class B common stock for any reason, including proration, may seek to sell these shares in the market, which may also adversely affect the market price for Viacom class A or class B common stock. Market prices for shares of Viacom class A or class B common stock may also decline following the completion of this exchange offer and any subsequent spin-off because shares of Viacom class A or class B common stock will no longer include an investment in the Blockbuster business.

Tendering Stockholders May Receive a Reduced Premium or May Not Receive Any Premium in this Exchange Offer

Shares of Viacom class A and class B common stock and Blockbuster class A common stock are traded on the New York Stock Exchange. On June 17, 2004, the last New York Stock Exchange trading day before the date of the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing prices for Viacom class A common stock, Viacom class B common stock and Blockbuster class A common stock were $37.21, $36.66 and $15.39, respectively. On August 25, 2004, Blockbuster s class A common stock began trading ex-dividend reflecting the special distribution. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing prices for Viacom class A common stock, Viacom class B common stock and Blockbuster class A common stock were $34.60, $34.13 and $7.90, respectively. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange, but there is currently no trading market for Blockbuster class B common stock

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and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. In addition, neither Viacom nor Blockbuster can predict the prices at which Blockbuster class A or class B common stock will trade after this exchange offer. Whether Viacom stockholders participating in this exchange offer will receive a premium for their shares of Viacom common stock will depend on the prices for shares of Viacom class A or class B common stock and Blockbuster class A common stock at the expiration date of this exchange offer. Since the market price for shares of Viacom class A and class B common stock and Blockbuster class A common stock fluctuates, Viacom cannot predict the prices at which shares of Viacom class A or class B common stock or Blockbuster class A common stock will be trading at the expiration date of this exchange offer, and therefore Viacom cannot predict whether stockholders who participate in this exchange offer will receive a premium for their shares of Viacom class A or class B common stock or, if they do, the amount of such premium.

If this Exchange Offer and Any Spin-Off Are Determined to Be Taxable, Viacom and Tendering Stockholders Could Be Subject to a Material Amount of Taxes

On September 8, 2004, Viacom received a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and, if applicable, the spin-off will be tax-free to Viacom and Viacom stockholders, except with respect to any cash received in lieu of fractional shares of Blockbuster class A or class B common stock. This tax opinion is not binding on the Internal Revenue Service, or IRS, and is subject to certain factual representations and assumptions. If these factual representations and assumptions are incorrect, Viacom could not rely on the tax opinion. If Viacom completes this exchange offer and the spin-off and this exchange offer and the spin-off are determined to be taxable, Viacom and its stockholders who receive shares of Blockbuster class A or class B common stock could be subject to a material amount of taxes. Neither Viacom nor Blockbuster will indemnify any individual stockholder for any taxes that may be incurred in connection with this exchange offer or any spin-off.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Prospectus-Offer to Exchange and the documents incorporated by reference into this document contain both historical and forward-looking statements. Forward-looking statements are not based on historical facts, but rather reflect Viacom s and Blockbuster s current expectations, estimates and projections concerning future results and events. Forward-looking statements generally can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as, believe, expect, anticipate, may, could, intend intent, belief, estimate, plan, foresee, likely, will or other similar words or phrases. Similarly, statements concerning the special distrib borrowings by Blockbuster pursuant to the new credit agreement and the senior subordinated notes, this exchange offer or agreements or arrangements relating to any of such matters or that describe Viacom s or Blockbuster s strategies, initiatives, objectives, plans or goals are forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors that are difficult to predict and that may cause Viacom s or Blockbuster s actual results, performance or achievements to vary materially from what is expressed in or indicated by such forward-looking statements. Viacom and Blockbuster cannot make any assurance that projected results or events will be achieved. The risk factors set forth above in the section entitled Risk Factors beginning on page 31, and the matters discussed in Blockbuster s and Viacom s SEC filings, including the Disclosure Regarding Forward-Looking Information sections of Blockbuster s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively, and the matters discussed in the Cautionary Statement Concerning Forward-Looking Statements sections of Viacom s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Viacom s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which reports are incorporated by reference in this Prospectus-Offer to Exchange, among others, could affect future results, causing these results to differ materially from those expressed in Viacom s and Blockbuster s forward-looking statements.

The forward-looking statements included and incorporated by reference in this document are only made as of the date of this document or the respective documents incorporated by reference herein, as applicable, and neither Viacom nor Blockbuster has any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.

See the sections entitled Risk Factors and Where You Can Find More Information About Viacom and Blockbuster beginning on pages 31 and 157, respectively.

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RECENT DEVELOPMENTS

Payment of Special Distribution and Blockbuster Indebtedness

On September 3, 2004, Blockbuster paid a special cash distribution of $5.00 per share (approximately $905.6 million in aggregate) to its stockholders of record on August 27, 2004. Blockbuster used borrowings of $650 million under its new credit agreement together with the proceeds of its sale of $300 million aggregate principal amount of senior subordinated notes to fund the payment of the special distribution and finance transaction costs and expenses in connection with the split-off and the special distribution. See the sections entitled Description of Other Material Agreements New Blockbuster Credit Agreement and Description of Other Material Agreements Indenture Governing 9% Senior Subordinated Notes Due 2012 beginning on pages 149 and 151, respectively.

Stock Option Adjustment

In connection with the special distribution, on August 25, 2004, Blockbuster adjusted its outstanding stock options which allow employees and directors to purchase shares of Blockbuster class A common stock. See the section entitled Blockbuster Stock Option Matters on page 84.

Blockbuster Launch of Online DVD Rental Service

On August 11, 2004, Blockbuster announced the launch of BLOCKBUSTER Online, a new Internet-based service that allows customers to rent unlimited DVDs by mail, up to three movies at a time, for a monthly fee.

Goodwill and Other Intangible Assets

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, Viacom and Blockbuster test goodwill and other intangible assets for impairment during the fourth quarter of each year and on an interim date should factors or indicators become apparent that would require an interim test. Blockbuster is currently performing an interim impairment test of its goodwill due to developments related to this exchange offer. The exchange ratio and the market value of Blockbuster shares at the time of this exchange offer will be two of the factors considered in determining the estimated fair value of Blockbuster for the interim impairment test. This test could result in the recognition of a material non-cash impairment charge to Viacom s and Blockbuster s reported net income for the third quarter of 2004. Blockbuster s goodwill balance was $2.6 billion at June 30, 2004.

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THE TRANSACTION

Background of this Exchange Offer

In December 1998, following a thorough review of the various alternatives for divesting Viacom s home video business, Viacom s board of directors determined that Viacom and Blockbuster would each benefit from being independent publicly held companies. Viacom s board of directors determined to pursue this objective by undertaking an initial public offering of Blockbuster s common stock, which would be followed by a split-off of Viacom s remaining interest in Blockbuster. On August 16, 1999, Blockbuster completed its initial public offering, selling to the public 31 million shares of its class A common stock, representing approximately 18% of its total shares outstanding and about 4% of the total voting power of Blockbuster. Viacom, through its ownership of all of the 144 million shares of Blockbuster class B common stock outstanding, retained approximately 82.3% of the total equity value in, and approximately 95.9% of the total voting power of, Blockbuster.

In September 1999, Viacom announced that it would merge with CBS Corporation, a transaction that was consummated on May 4, 2000. The Viacom/CBS merger resulted in a re-evaluation and reprioritization of Viacom s strategies in light of the new mix of businesses, and, in March 2001, Viacom disclosed that it no longer had any plans to separate Blockbuster from Viacom.

Subsequent to that announcement, Viacom s board of directors and its management periodically have re-evaluated the relationship between Viacom and Blockbuster.

In the fall of 2003, following extensive discussions, Viacom s board of directors authorized Viacom management to explore various alternatives with respect to Viacom s interest in Blockbuster. Viacom retained Bear Stearns as its financial advisor with respect thereto.

Beginning in October 2003, Viacom began to evaluate various financial, legal, tax and other issues raised by potential transaction structures pursuant to which Blockbuster could be separated from Viacom, including a potential sale of Blockbuster to a buyer or group of buyers and a potential split-off. Throughout the next few months, Viacom explored with several third parties the potential acquisition of Blockbuster, and ultimately concluded that Viacom was not interested in proceeding with such a transaction.

In November 2003, Blockbuster s board of directors considered the formation of a committee of directors who were independent, within the meaning of the rules and regulations of the New York Stock Exchange and the Securities and Exchange Commission, and who were otherwise disinterested. Viacom s representatives suggested the formation of this committee at that time so that, if any proposed transaction involving Viacom s interest in Blockbuster were to develop, the committee would have had an appropriate amount of time to retain advisors and inform itself appropriately about the factors necessary to promptly evaluate any such transaction. Blockbuster s board of directors promptly established a special committee comprised of Jackie M. Clegg, Linda Griego and John L. Muething, Blockbuster directors who were and are still independent for purposes of the applicable rules of the Securities and Exchange Commission and New York Stock Exchange and who were and are still deemed to have no special interest different from Blockbuster stockholders in general in any such transaction. The special committee was authorized to evaluate the terms and conditions of any such transaction and report to Blockbuster s entire board of directors the committee s recommendations and conclusions. In addition, the special committee was authorized to retain financial and legal advisors of their own selection, and in November 2003, retained Lazard Frères & Co. LLC as financial advisor, which is referred to in this Prospectus-Offer to Exchange as Lazard, and the law firms of Hale and Dorr LLP and Richards, Layton & Finger, P.A. The special committee held nine meetings from November 2003 through January 2004.

On February 10, 2004, Viacom announced that it would pursue the divestiture of its approximately 81.5% interest in Blockbuster. Viacom also announced that it anticipated such divestiture would be effected though a tax-free split-off but that it would also continue to consider other alternatives. Later that day Blockbuster announced that it anticipated that Blockbuster s board of directors would consider paying a special distribution, subject to financing, to all Blockbuster stockholders, including Viacom.

Beginning in February 2004, Viacom, Blockbuster, the Blockbuster special committee and their respective legal and financial advisors evaluated and discussed possible terms on which Blockbuster could be separated from Viacom other than through a potential sale, including pursuant to an exchange offer similar to the one described in this Prospectus-Offer to Exchange. The parties considered the impact thereof on Blockbuster s public stockholders, on Blockbuster s business and financial flexibility, on Blockbuster s ability to attract and retain qualified employees and on Viacom s financial objectives. The parties also considered the potential tax treatment of such a transaction. In addition, the parties considered and evaluated alternatives with respect to, among other things, a new credit agreement for Blockbuster, the aggregate amount of any special distribution, the amount of Blockbuster class B common stock that would be converted to Blockbuster class A common stock, the voting power of Blockbuster s class B common stock following a transaction, other proposed changes to Blockbuster s certificate of incorporation and bylaws, the continuation of Viacom s guarantees of or other credit support to certain Blockbuster leases and potential modifications to other arrangements between Blockbuster and Viacom, including the agreements entered into between Viacom and Blockbuster in connection with Blockbuster s initial public offering in August 1999 and the then-contemplated split-off, which are referred to in this Prospectus-Offer to Exchange as the separation agreements. Following the February 10, 2004 announcement by Viacom, the Blockbuster special committee held 18 meetings with its financial and/or legal advisors to consider and review the proposed terms of the transaction, through and including June 16, 2004.

In March 2004, Viacom retained Goldman Sachs as its co-financial advisor, and Blockbuster retained Credit Suisse First Boston LLC to act as its financial advisor.

At its meeting on June 10, 2004, Blockbuster s board of directors reviewed the proposed terms of the new credit facilities and authorized Blockbuster s management to finalize and enter into the new credit facilities. Blockbuster s board of directors also discussed a proposed bond offering to be conducted in conjunction with the closing of the proposed new credit facilities and approved the engagement of J.P. Morgan Securities Inc. to act as Blockbuster s financial advisor with respect to the proposed bond offering.

At its meeting on June 16, 2004, the Blockbuster special committee, after review of the proposed terms of the new credit facilities, the special distribution, the various separation agreements described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster, the amendment and restatement of Blockbuster s certificate of incorporation and bylaws, and a new employment arrangement for Mr. John F. Antioco, Blockbuster s chairman and chief executive officer, resolved to recommend to Blockbuster s full board of directors the approval of the proposed new credit facilities, the special distribution (its recommendation regarding the special distribution being subject to a further determination by the Blockbuster special committee prior to the declaration of the special distribution by Blockbuster s board of directors), the separation agreements, the amendment and restatement of Blockbuster s certificate of incorporation and bylaws and the filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part. Subsequent to the recommendation of the Blockbuster special committee, at its meeting on June 16, 2004, Blockbuster s board of directors approved the separation agreements, the amendment and restatement of Blockbuster s certificate of incorporation and bylaws, the filing of such Registration Statement, and affirmed the terms of the new credit facilities.

On June 16, 2004, Blockbuster entered into a commitment letter with respect to a new $1.45 billion credit agreement with a syndicate of lenders. In connection with the offering of the senior subordinated notes, this commitment was subsequently reduced to $1.15 billion.

On June 17, 2004, a committee of Viacom s board of directors delegated with the authority to approve the final form of the divestiture of Blockbuster from Viacom approved the divestiture by means of the split-off contemplated by this Prospectus-Offer to Exchange. The committee also approved Viacom s entry into the various separation agreements described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions beginning on page 106.

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On June 18, 2004, Viacom and Blockbuster executed the separation agreements and Blockbuster and Mr. Antioco executed his new employment agreement.

On June 29, 2004, the Blockbuster special committee and board of directors retained Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which is referred to in this Prospectus-Offer to Exchange as Houlihan Lokey, to provide an opinion as to certain financial tests pertaining to Blockbuster immediately after and giving effect to the special distribution.

On July 20, 2004, Blockbuster s stockholders approved the Blockbuster charter amendments at Blockbuster s 2004 annual meeting.

On July 28, 2004, Blockbuster s board of directors approved the preparation of a preliminary offering memorandum relating to the senior subordinated notes offering.

On August 10, 2004, Blockbuster s board of directors approved the material terms of Blockbuster s senior subordinated notes offering and established a pricing committee.

On August 13, 2004, Blockbuster s pricing committee established, among other things, the interest rate and aggregate principal amount of the senior subordinated notes.

On August 18, 2004, the Blockbuster special committee made a further recommendation regarding the payment of a special distribution following receipt of the opinion from Houlihan Lokey. Following such recommendation, Blockbuster s board of directors approved the special distribution effective on the date of the funding of the new credit agreement. On August 20, 2004, Blockbuster entered into the new credit agreement and issued $300 million aggregate principal amount of 9% senior subordinated notes. On September 3, 2004, the special distribution was paid to holders of record of Blockbuster class A and class B common stock as of August 27, 2004.

Recommendation of Special Committee to Blockbuster s Board of Directors

The Blockbuster special committee, at its meeting on June 16, 2004, resolved to recommend to Blockbuster s full board of directors the approval of the new credit agreement, the special distribution (subject to a further determination by it prior to the declaration of the special distribution by Blockbuster s board of directors), the separation agreements, the amendment and restatement of Blockbuster s certificate of incorporation and bylaws and the filing of the Registration Statement of which this Prospectus Offer to Exchange forms a part. The Blockbuster special committee, at its meeting on August 18, 2004, resolved to recommend to Blockbuster s full board of directors the special distribution.

The Blockbuster Special Committee has not determined the terms of this exchange offer and has made no recommendation as to whether any Viacom stockholder should participate in this exchange offer.

In the course of reaching the recommendations to Blockbuster s board of directors described above, the Blockbuster special committee consulted with senior management of Blockbuster, as well as its financial advisors and legal counsel. The Blockbuster special committee also considered the following material factors:

- the size of the special distribution and the fact that it would be paid pro rata to all Blockbuster stockholders;
- the potential effect that payment of the special distribution could have upon the market value of Blockbuster class A common stock;
- potential alternative uses by Blockbuster of the funds used to pay the special distribution;
- the size, terms and conditions of the new credit agreement to be entered into to facilitate the payment of the special distribution and the ability of Blockbuster to repay such indebtedness and carry on its business;
- the split-off transaction that was proposed to follow payment of the special distribution and the terms of such transaction, including:
  - the business advantages to Blockbuster of separating from Viacom, including those set forth below in the section entitled The Transaction Reasons for this Exchange Offer, as well as potential disadvantages that could result from such separation;

the potential impact on the public stockholders of Blockbuster resulting from the split-off transaction, including that Viacom would no longer control Blockbuster;

the terms of the proposed split-off, including the conversion by Viacom of shares of Blockbuster class B common stock into shares of Blockbuster class A common stock and the reduction in the voting power of the Blockbuster class B common stock as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement Conversion of Blockbuster Class B Common Stock ; and

the fact that Viacom, pursuant to pre-existing contractual arrangements put into effect prior to the initial public offering of Blockbuster common stock in August 1999, could have effected an exchange offer similar to that described in this Prospectus Offer to Exchange without converting shares of the Blockbuster class B common stock held by Viacom into shares of Blockbuster class A common stock and without changing the greater voting rights of the Blockbuster class B common stock, with the result that following such transaction 144 million shares of Blockbuster class B common stock, with five votes per share, would be publicly held versus approximately 37.1 million shares of Blockbuster class A common stock with one vote per share;

the terms of the separation agreements and the amendments to such agreements to be executed in connection with the proposed split-off, including Viacom s agreement to complete a split-off and/or spin-off, subject to the conditions to such obligation as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement Disposition of Control ;

the terms of the amendments to Blockbuster s certificate of incorporation and bylaws, and Viacom s agreement to vote its shares of Blockbuster common stock in favor of such amendments;

the potential alternatives to a split-off transaction on the terms set forth in this Prospectus Offer to Exchange, including Blockbuster remaining a majority-owned subsidiary of Viacom, becoming a wholly owned subsidiary of Viacom or being acquired by any third party, or a pro rata distribution to Viacom stockholders of the Blockbuster common stock held by Viacom, and the likelihood that any such alternative may be realized; and

the presentation of Lazard and the opinion of Houlihan Lokey described below in the section entitled Report of Lazard and Opinion of Houlihan Lokey below.

In making its recommendation, the members of the Blockbuster special committee considered their knowledge of the business, financial condition and prospects of Blockbuster, and the information provided by Blockbuster s senior management and the Blockbuster special committee s financial advisors and legal counsel. In view of the variety of factors considered in making its recommendation, the Blockbuster special committee did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching this recommendation.

Report of Lazard and Opinion of Houlihan Lokey

Report of Lazard

In November 2003, the Blockbuster special committee retained Lazard as its financial advisor. **Lazard was not asked to render or deliver, nor has Lazard rendered or delivered, any opinion with respect to the fairness or adequacy of this exchange offer or the transactions**

contemplated thereby, including the split-off, the proposed new credit facilities, the special distribution, the separation agreements or the exchange ratio.

On June 16, 2004, Lazard presented a report to the Blockbuster special committee. The principal focus of Lazard s report and presentation was an analysis of the special distribution to be made prior to the commencement of this exchange offer and the potential impact of the special distribution on Blockbuster s financial condition. **Lazard s report does not constitute a recommendation to Blockbuster or the Blockbuster special committee with respect to the fairness or adequacy of this exchange offer or the**

transactions contemplated thereby, including the split-off, the proposed new credit facilities, the special distribution, the separation agreements or the exchange ratio. In addition, Lazard s report does not constitute a recommendation to any stockholder of Viacom as to whether such stockholder should participate in this exchange offer. Lazard s report is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of, the date of Lazard s report. Lazard assumes no responsibility for updating or revising its report based on circumstances or events occurring after the date of such report.

In connection with making its presentation, Lazard:

- reviewed the financial terms and conditions of this exchange offer and the financial terms and conditions for the proposed new credit facilities as set forth in term sheets, dated June 1, 2004, which contemplated a $500 million revolving credit facility (of which up to $150 million is reserved for the Viacom letter of credit, although such reserve amount may be decreased from time to time by the joint instructions of Viacom and Blockbuster), a $200 million Term A Loan Facility and a $750 million Term B Loan Facility and which were provided to Lazard by Blockbuster;
- analyzed certain historical business and financial information relating to Blockbuster;
- reviewed various financial forecasts and other data provided to Lazard by Blockbuster relating to Blockbuster s business;
- held discussions with members of the senior management of Blockbuster with respect to the business and prospects of Blockbuster;
- reviewed public information with respect to certain other companies in lines of business Lazard believed to be generally comparable to the business of Blockbuster;
- reviewed the historical stock prices and trading volumes of Blockbuster s common stock; and
- conducted such other financial studies, analyses and investigations as Lazard deemed appropriate.

Lazard relied upon the accuracy and completeness of the foregoing information, and did not assume any responsibility for any independent verification of such information or any independent valuation or appraisal of any of the assets or liabilities of Blockbuster, or concerning the solvency or fair value of Blockbuster. With respect to financial forecasts and other information and data provided or otherwise reviewed by it, Lazard assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Blockbuster as to the future financial performance of Blockbuster. Lazard assumed no responsibility for and expressed no view as to such forecasts or other information or data or the assumptions on which they were based.

The following is a summary of the material financial analyses Lazard presented to the Blockbuster special committee on June 16, 2004. The summary of financial analyses includes information presented in tabular format. In order to fully understand the financial analyses used by Lazard, the information presented in tabular format must be read together with the accompanying text. Information presented in tabular format alone does not constitute a complete description of the financial analyses.

Covenant and Paydown Sensitivity Analysis. Lazard conducted a covenant and paydown sensitivity analysis, after taking into consideration the special distribution, to determine the amount by which Blockbuster s projected operating income plus depreciation and amortization of intangibles, which is referred to in this Prospectus-Offer to Exchange as adjusted EBITDA, exceeded the amount of actual adjusted EBITDA that would be required in each of calendar years 2004, 2005, 2006, 2007 and 2008 in order for Blockbuster to comply with the maximum leverage ratio and the minimum fixed charge coverage ratio each as set forth and defined in term sheets, dated June 1, 2004, for the proposed new credit facilities. Lazard referred to this amount as Blockbuster s adjusted EBITDA cushion. Lazard also noted whether Blockbuster would be able to comply with the mandatory repayment schedule as set forth in the term sheets, dated June 1, 2004, for the proposed new credit facilities.

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In the covenant and paydown sensitivity analysis, Lazard assumed LIBOR margins, as described in the pricing grid to the term sheets for the proposed new credit facilities, of 225-300 basis points depending on Blockbuster s leverage ratio (defined as net debt divided by adjusted EBITDA) for the Term A Loan Facility and 275 basis points for the Term B Loan Facility. Lazard noted that these LIBOR margins included the maximum market flex pricing of 75 basis points. For LIBOR pricing, Lazard used the LIBOR forward curve, as quoted by Bloomberg, ranging from 1.5% to 5.3% over the 1 to 5-year time periods. Lazard also assumed that 50% of the floating rate bank debt would be swapped into fixed rate bank debt with an interest rate of 6.9%. Calculations were made on a pro forma basis as of December 31, 2003 to illustrate credit ratios and repayment percentages over the five full fiscal years from 2004 through 2008. Lazard also assumed that all of Blockbuster s available cash in excess of $100 million would be used to repay debt. Lazard further assumed a drawdown of $200 million on the Term A Loan Facility, a drawdown of $705 million on the Term B Loan Facility and use of $130 million of existing cash to pay the special distribution, refinance $120 million of existing debt and pay fees and expenses of approximately $10 million.

Lazard conducted this analysis using two separate sets of projections for Blockbuster. First, Lazard conducted the covenant and payment sensitivity analysis using Blockbuster management s May 2004 estimated projections, including adjusted EBITDA projections, for each of the calendar years 2004, 2005, 2006, 2007 and 2008 (the management case). Second, to further test Blockbuster s credit flexibility, a sensitivity case was developed based upon Lazard s discussions with Blockbuster management. The sensitivity case adjusts the management case to assume a $50 million reduction in adjusted EBITDA in 2004 and an additional percentage point decrease in domestic same-store rental revenues annually beginning in calendar year 2005.

Lazard noted that pursuant to the term sheets for the proposed new credit facilities reviewed by Lazard, Blockbuster covenanted to:

- maintain a maximum leverage ratio of 3.25x initially, and that this maximum leverage ratio would decrease over time to 2.50x by October 2008;

- maintain a minimum fixed charge coverage ratio (defined as adjusted EBITDA plus rental lease obligations, or EBITDAR, divided by the sum of interest, capital lease obligations, rental lease obligations and dividends, assuming payment of $9.9 million of dividends annually) of 1.35x over the life of the credit facility;

- repay 15% of the initial outstanding amount under the Term A Loan Facility in each of years 2 through 5 of the loan and 20% in each of years 6 through 7 of the loan; and

- repay 1% of the initial outstanding amount under the Term B Loan Facility in each of years 2 through 4 of the loan, 10% in each of years 5 through 6 of the loan and 77% in year 7 of the loan.

For each of calendar years 2004, 2005, 2006, 2007 and 2008, Lazard derived:

- Blockbuster s estimated leverage ratio;

- Blockbuster s estimated fixed charge coverage ratio; and

- Blockbuster s projected repayment of the Term A Loan Facility and the Term B Loan Facility.

Lazard derived that under the management case:

- Blockbuster s estimated starting pro forma leverage ratio in 2004 would be approximately 1.65x, and that the estimated pro forma leverage ratio would decrease each year thereafter to approximately 0.10x in 2008;

- Blockbuster s estimated starting pro forma fixed charge coverage ratio in 2004 would be approximately 1.69x, and that the estimated pro forma fixed charge coverage ratio would increase each year thereafter to approximately 2.06x in 2008;

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In each year from 2004 through 2008, Blockbuster would make total payments in excess of the covenanted repayment amount for such year for the Term A and Term B Loan Facilities; and

By 2006, Blockbuster would have repaid all outstanding amounts under the Term A Loan Facility, and that by 2008, Blockbuster would have repaid approximately 90.1% of the outstanding amount under the Term B Loan Facility.

Lazard derived that under the sensitivity case:

Blockbuster s estimated starting pro forma leverage ratio in 2004 would be approximately 1.81x, and that the estimated pro forma leverage ratio would decrease each year thereafter to approximately 0.42x in 2008;

Blockbuster s estimated starting pro forma fixed charge coverage ratio in 2004 would be approximately 1.62x, and the estimated pro forma fixed charge coverage ratio would increase each year thereafter to approximately 1.88x in 2008;

In each year from 2004 through 2008, Blockbuster would make total payments in excess of the covenanted repayment amount for such year for the Term A and Term B Loans Facilities; and

By 2006, Blockbuster would have repaid all outstanding amounts under the Term A Loan Facility, and that by 2008, Blockbuster would have repaid approximately 62.4% of the outstanding amount under the Term B Loan Facility.

Lazard then derived Blockbuster s estimated adjusted EBITDA cushion under both the management case and the sensitivity case for each of calendar years 2004, 2005, 2006, 2007 and 2008 assuming payment of the special distribution. Lazard derived that if Blockbuster were to pay the special distribution, the smallest adjusted EBITDA cushion available to Blockbuster in any year from 2004 through 2008 under either the leverage ratio covenant or the fixed charge coverage ratio covenant was approximately $228 million under the management case and approximately $178 million under the sensitivity case, and that under both the management case and the sensitivity case, Blockbuster s adjusted EBITDA cushion would increase annually from the end of calendar year 2004 through the end of calendar year 2008. Lazard further noted that Blockbuster would have a smaller adjusted EBITDA cushion under the fixed charge coverage ratio covenant than under the leverage ratio covenant.

Lazard further derived and analyzed the estimated adjusted EBITDA cushion that would be available if Blockbuster were to:

Pay the special distribution and undertake a $300 million share repurchase;

Pay the special distribution and consummate the hypothetical acquisition of a public company involved in the distribution of retail products complementary to Blockbuster s business for an enterprise valuation of approximately $725 million; and

Pay the special distribution, undertake a $300 million share repurchase and consummate the hypothetical acquisition of a public company involved in the distribution of retail products complementary to Blockbuster s business for an enterprise valuation of approximately $725 million.

In deriving the estimated adjusted EBITDA cushion that would be available in the cases assuming that Blockbuster undertook a $300 million share repurchase, Lazard assumed Blockbuster would drawdown $300 million under its committed revolver, which has LIBOR margins consistent with the Term A Loan Facility.

In deriving the estimated adjusted EBITDA cushion that would be available in the cases assuming Blockbuster s hypothetical acquisition of a public company involved in the distribution of retail products complementary to Blockbuster s business for an enterprise valuation of approximately $725 million, Lazard assumed Blockbuster would enter into an enlarged credit facility where the approximate split of term A and term B borrowings, the cost of such borrowings and the covenants and repayment requirements under such borrowings would be consistent with Blockbuster s then existing credit facility. Lazard further assumed that all available cash other than $150 million would be used to repay debt. Lazard based calculations for the hypothetical acquisition on discussions with Blockbuster management and Wall Street research. Based on discussions with Blockbuster management, Lazard further assumed that the hypothetical acquisition would result in no synergies.

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Lazard derived that if Blockbuster were to pay the special distribution and undertake a $300 million share repurchase, the smallest adjusted EBITDA cushion available to Blockbuster in any year from 2004 through 2008 under either the leverage covenant or the fixed charge coverage ratio covenant was approximately $179 million under the management case and approximately $129 million under the sensitivity case, and that Blockbuster s adjusted EBITDA cushion would increase in each year from the end of 2004 through the end of 2008.

Lazard further derived that if Blockbuster were to pay the special distribution and consummate the hypothetical acquisition of a public company involved in the distribution of retail products complementary to Blockbuster s business for an enterprise valuation of approximately $725 million, the smallest adjusted EBITDA cushion available to Blockbuster in any year from 2004 through 2008 under either the leverage covenant or the fixed charge coverage ratio covenant was approximately $153 million under the management case and approximately $102 million under the sensitivity case, and that Blockbuster s adjusted EBITDA cushion would increase in each year from the end of 2004 through the end of 2008.

Lazard further derived that if Blockbuster were to pay the special distribution, undertake a $300 million share repurchase and consummate the hypothetical acquisition of a public company involved in the distribution of retail products complementary to Blockbuster s business for an enterprise valuation of approximately $725 million, the smallest adjusted EBITDA cushion available to Blockbuster in any year from 2004 through 2008 under either the leverage covenant or the fixed charge coverage ratio covenant was approximately $61 million under the management case and approximately $7 million under the sensitivity case, and that Blockbuster s adjusted EBITDA cushion would increase in each year from the end of 2004 through the end of 2008.

Stock Performance Since IPO. Lazard reviewed Blockbuster s stock price since Blockbuster s initial public offering on August 11, 1999. Lazard noted that the financial markets have not rewarded Blockbuster stockholders for Blockbuster s financial performance or debt paydown since its initial public offering. Despite the fact that Blockbuster s adjusted EBITDA has increased, and Blockbuster s net debt has decreased since the time of the initial public offering, the closing price per share of Blockbuster s common stock on June 10, 2004 was $15.49, representing only a 3% premium over the $15.00 per share price at the time of Blockbuster s initial public offering. Lazard further noted that Blockbuster s enterprise value decreased from $3.8 billion to $2.8 billion over the same time period.

Hypothetical Impact of Special Distribution on Share Price. Lazard conducted an analysis to determine the hypothetical impact on Blockbuster s share price of payment of the special distribution in 2004 assuming constant adjusted EBITDA and price to earnings multiples before and after payment of the special distribution. Based on the closing price of Blockbuster class A common stock on June 10, 2004 of $15.49, estimated 2004 adjusted EBITDA as set forth in the management case, and earnings per share estimates calculated by Lazard, Lazard derived a current implied firm value as a multiple of adjusted EBITDA for Blockbuster of 5.1x and a current price to earnings multiple for Blockbuster of 13.0x. After making pro forma adjustments for changes in net debt and earnings per share that would result from the additional debt incurred in connection with the payment of the special distribution, Lazard used the derived current implied adjusted EBITDA and price to earnings multiples to calculate hypothetical pro forma share prices. Based upon Lazard s calculations, the hypothetical pro forma share prices were $10.49 using a constant adjusted EBITDA multiple of 5.1x and $13.74 per share using a constant price to earnings multiple of 13.0x. When also taking into account the $5.00 per share special distribution received by Blockbuster s stockholders, Lazard noted that the total per share value to stockholders would be $15.49 using a constant adjusted EBITDA multiple of 5.1x and $18.74 using a constant price to earnings multiple of 13.0x, which represented 0.0% and 21.0% premiums over the June 10, 2004 market price using constant adjusted EBITDA and constant price to earnings multiples, respectively.

In performing its analysis, Lazard did not take into account any potential downward pricing pressure on Blockbuster shares due to market factors, including the large supply of Blockbuster shares that would be released into the market as a result of this exchange offer or then published analyst estimates exceeding Blockbuster s management s estimates for 2004 adjusted EBITDA and earnings per share.

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Analysis at Various Debt Levels. Lazard derived various pro forma leverage and coverage statistics and implied debt ratings for Blockbuster, and compared this information to similar information for Blockbuster (a) at the time of Blockbuster s 1999 initial public offering, (b) using actual balance sheet data as of December 31, 2003 and 2004 estimated income statement data (excluding debt related to the special distribution) and (c) Hollywood Entertainment Corporation both before and after the closing of the transaction contemplated by the announcement of Hollywood Entertainment Corporation s proposed going private transaction on March 29, 2004. In its analysis, Lazard assumed total Blockbuster net debt of $905 million and $1,205 million, alternatively, consisting of $200 million from the Term A Loan Facility, $705 million from the Term B Loan Facility, $100 million from capital lease obligations and, in the $1,205 million net debt case, $300 million from the revolver, less assumed cash on hand of $100 million for working capital and other cash requirements. Lazard determined adjusted debt for Blockbuster and Hollywood Entertainment Corporation by capitalizing rental lease obligations at 8.0x and adding total debt. Information for Hollywood Entertainment Corporation was based on publicly available information for actual net debt levels for before and estimated net debt levels after the closing of the proposed going private transaction announced on March 29, 2004, and Wall Street research for estimated 2004 income statement data. Ratings for Blockbuster in the $905 million and $1,205 million net debt cases were based on Lazard s estimates. Ratings for Blockbuster as of December 31, 2003 and Hollywood Entertainment Corporation pre-sale are based on actual ratings. The results of this analysis were as follows:

	Blockbuster				Hollywood	
Net Debt Assumption:	**March 31, 1999 Adjusted for Initial Public Offering**	**December 31, 2003 Actual**	**$905 Million of Assumed Net Debt**	**$1,205 Million of Assumed Net Debt**	**Pre-Sale**	**Post-Sale**
Income Statement Data Calculation Date	**Latest twelve months as of March 31, 1999***	**2004 Estimated****	**2004 Estimated**	**2004 Estimated**	**2004 Estimated**	**2004 Estimated**
Leverage and Coverage Statistics						
Adjusted debt/EBITDAR	5.5x	4.3x	5.0x	5.2x	4.7x	6.1x
EBITDAR/(Interest + rental lease obligations + dividends + capital leases)	1.5x	1.8x	1.7x	1.7x	1.8x	1.4x
(Operating income plus amortization of intangibles plus rental lease obligations)/(Interest + rental lease obligations)	1.2x	1.5x	1.4x	1.4x	1.6x	1.2x
Total Debt/Adjusted EBITDA	3.1x	0.4x	1.8x	2.4x	1.6x	4.3x
Net Debt/Adjusted EBITDA	2.9x	Not meaningful	1.6x	2.2x	1.3x	3.9x
Adjusted EBITDA/Interest	3.8x	44.4x	11.0x	8.6x	8.0x	2.2x
Implied Ratings						
Corporate			BB-/B+	B+/B	B+	N/A
Bank Debt		BBB-	BB/BB-	BB-/B+	BB-	N/A

* Excludes a $423.3 million charge related to a change in accounting for videocassette and game rental amortization.
** Excludes increased interest expense relating to debt associated with the special distribution.

Additional Analysis. In addition to the analyses above, Lazard also presented empirical information to the Blockbuster special committee concerning considerations with respect to companies having two classes of common stock. In connection with presenting this information, Lazard noted the following with respect to the alternatives for the number of shares of Blockbuster class A and class B common stock (and the number of votes per share of Blockbuster class B common stock) to be distributed by Viacom as part of this exchange offer:

Based on a selected group of companies with dual class share structures with differing voting rights and market capitalization in excess of $1 billion, on average, the empirical data suggest that the class with the greater float (*i.e.*, the number of shares available for trading) trades at a small premium of approximately 1.3% based on average trading premium for the past three years (although the median premium over the same period suggests no such differentiation in trading price between the classes).

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The float and economic interest represented by a class of shares appear to be more important to inclusion in S&P indices than the vote allocable to such class.

The empirical data is not sufficiently broad to estimate the level of any potential premium or discount under a specific allocation of float and vote.

If there was no conversion of Blockbuster class B common stock to Blockbuster class A common stock prior to the distribution and the number of votes per share of Blockbuster class B common stock would remain at five (resulting in economic and voting split of Blockbuster class B common stock to Blockbuster class A common stock of approximately 80%/20% and 95%/5%, respectively), Lazard s view was that over time the Blockbuster class A common stock would not trade as well as the Blockbuster class B common stock.

Under the proposal then being considered by the Blockbuster special committee in which Viacom would convert a number of shares of Blockbuster class B common stock to Blockbuster class A common stock and the votes per share of Blockbuster class B common stock would be reduced from five to two prior to the distribution (resulting in economic and voting split of shares of Blockbuster class B common stock to Blockbuster class A common stock of approximately 40%/60% and 57%/43%), Lazard s view was that over time the Blockbuster class A common stock would trade at least as well as the Blockbuster class B common stock.

The summary set forth above does not purport to be a complete description of the analyses performed by Lazard, although it is a summary of the material financial and comparative analyses presented by Lazard to the Blockbuster special committee. The preparation of financial analyses is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting the portions of the analyses or t