

BLOCKBUSTER INC
Form 10-Q
August 15, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended July 6, 2008

OR

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission File Number 001-15153

BLOCKBUSTER INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

52-1655102
(I.R.S. Employer
Identification No.)

1201 Elm Street
Dallas, Texas 75270
Telephone 214-854-3000

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock outstanding at August 8, 2008:

Class A common stock, par value \$.01 per share: 125,337,246

Class B common stock, par value \$.01 per share: 72,000,000

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****BLOCKBUSTER INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per share amounts)**

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 6, 2008	July 1, 2007 (As restated)	July 6, 2008	July 1, 2007 (As restated)
Revenues:				
Base rental revenues	\$ 812.0	\$ 798.5	\$ 1,713.7	\$ 1,682.3
Previously rented product (PRP) revenues	160.3	166.0	334.9	334.3
Total rental revenues	972.3	964.5	2,048.6	2,016.6
Merchandise sales	323.8	285.2	633.6	677.4
Other revenues	8.4	13.5	16.4	43.1
	1,304.5	1,263.2	2,698.6	2,737.1
Cost of sales:				
Cost of rental revenues	397.5	414.1	808.0	828.6
Cost of merchandise sold	251.8	214.3	493.7	511.2
Total cost of sales	649.3	628.4	1,301.7	1,339.8
Gross profit	655.2	634.8	1,396.9	1,397.3
Operating expenses:				
General and administrative	605.2	622.5	1,206.3	1,278.0
Advertising	31.9	54.8	62.4	131.4
Depreciation and intangible amortization	37.9	48.7	77.8	98.5
Gain on sale of Gamestation		(81.3)		(81.3)
	675.0	644.7	1,346.5	1,426.6
Operating income (loss)	(19.8)	(9.9)	50.4	(29.3)
Interest expense	(18.4)	(21.1)	(37.6)	(44.7)
Interest income	0.6	1.9	1.7	3.8
Other items, net	(0.1)	1.8	0.3	(0.2)
Income (loss) before income taxes	(37.7)	(27.3)	14.8	(70.4)
Provision for income taxes	(4.2)	(3.0)	(11.0)	(11.5)
Income (loss) from continuing operations	(41.9)	(30.3)	3.8	(81.9)
Income (loss) from discontinued operations (Note 6)		(1.1)	(0.3)	1.5

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Net income (loss)	(41.9)	(31.4)	3.5	(80.4)
Preferred stock dividends	(2.8)	(2.8)	(5.6)	(5.6)
Net income (loss) applicable to common stockholders	\$ (44.7)	\$ (34.2)	\$ (2.1)	\$ (86.0)
Net income (loss) per common share:				
Basic and diluted				
Continuing operations	\$ (0.23)	\$ (0.17)	\$ (0.01)	\$ (0.46)
Discontinued operations		(0.01)		0.01
Net income (loss)	\$ (0.23)	\$ (0.18)	\$ (0.01)	\$ (0.45)
Weighted-average common shares outstanding:				
Basic and diluted				
	191.7	190.0	191.5	189.7

The accompanying notes are an integral part
of these unaudited consolidated financial statements.

Table of Contents**BLOCKBUSTER INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions, except per share amounts)**

	July 6, 2008	January 6, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 140.1	\$ 184.6
Receivables, less allowances of \$9.0 and \$8.7 for 2008 and 2007, respectively	86.2	113.1
Merchandise inventories	447.3	343.9
Rental library, net	405.0	441.1
Deferred income taxes	16.6	15.9
Prepaid and other current assets	241.5	220.6
Total current assets	1,336.7	1,319.2
Property and equipment, net	426.8	463.0
Deferred income taxes	140.4	144.8
Intangibles, net	12.7	13.7
Goodwill	772.6	772.6
Other assets	21.5	20.3
	\$ 2,710.7	\$ 2,733.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 433.2	\$ 472.8
Accrued expenses	547.4	618.4
Current portion of long-term debt	65.9	44.7
Current portion of capital lease obligations	9.6	10.1
Deferred income taxes	137.9	142.5
Total current liabilities	1,194.0	1,288.5
Long-term debt, less current portion	732.1	665.6
Capital lease obligations, less current portion	32.8	37.4
Other liabilities	81.6	86.4
	2,040.5	2,077.9
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 100 shares authorized; 0.15 shares issued and outstanding for 2008 and 2007 with a liquidation preference of \$1,000 per share	150.0	150.0
Class A common stock, par value \$0.01 per share; 400 shares authorized; 120.8 and 121.2 shares issued and outstanding for 2008 and 2007, respectively	1.2	1.2
Class B common stock, par value \$0.01 per share; 500 shares authorized; 72.0 shares issued and outstanding for 2008 and 2007	0.7	0.7
Additional paid-in capital	5,379.7	5,375.2
Accumulated deficit	(4,851.1)	(4,854.6)

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Accumulated other comprehensive loss	(10.3)	(16.8)
Total stockholders' equity	670.2	655.7
	\$ 2,710.7	\$ 2,733.6

The accompanying notes are an integral part
of these unaudited consolidated financial statements.

Table of Contents**BLOCKBUSTER INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

	Twenty-Six Weeks Ended	
	July 6, 2008	July 1, 2007
		(As restated)
Cash flows from operating activities:		
Net income (loss)	\$ 3.5	\$ (80.4)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation and intangible amortization	77.8	98.5
Rental library purchases	(340.5)	(316.3)
Rental library amortization	379.8	366.1
Non-cash share-based compensation	9.8	8.7
Gain on sale of Gamestation		(81.3)
Deferred taxes and other	(0.8)	(1.3)
Change in operating assets and liabilities:		
Change in receivables	27.8	37.9
Change in merchandise inventories	(98.8)	(21.3)
Change in prepaid and other assets	(19.2)	26.2
Change in accounts payable	(44.2)	(114.1)
Change in accrued expenses and other liabilities	(78.1)	(107.0)
Net cash provided by (used for) operating activities	(82.9)	(184.3)
Cash flows from investing activities:		