BLOCKBUSTER INC
Form S-3/A
September 02, 2004
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As filed with the Securities and Exchange Commission on September 2, 2004

Registration No. 333-116926

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

BLOCKBUSTER INC.

(Exact name of Registrant as specified in its charter)

Delaware	**52-1655102**
(State or Other Jurisdiction of Incorporation or Organization)	**(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

Executive Vice President, General Counsel and Secretary

Viacom Inc.

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New York, NY 10036

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Dallas, TX 75201

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Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please 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(c) 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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price(2)	Amount of registration fee(3)
Class A common stock, par value $0.01 per share	3,609,914(1)	N/A	$52,965,427.83	$6,710.72

(1) This Registration Statement relates to an aggregate of 3,609,914 shares of class A common stock, par value $0.01 per share (the class A common stock), of Blockbuster Inc., a Delaware corporation (Blockbuster), which consists of 3,600,352 shares included in the initial filing of this Registration Statement on June 28, 2004 and an additional 9,562 shares included herewith.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(a) and 457(c) of the Securities Act of 1933, as amended (the Securities Act). The proposed maximum aggregate offering price of $52,965,427.83 is the sum of the proposed maximum aggregate offering price of the 3,600,352 shares included in the initial filing of this registration statement and the proposed maximum aggregate offering price of the 9,562 additional shares included in this Registration Statement, the later of which was calculated based on $7.97, the average of the high and low sales prices of the class A common stock as reported by The New York Stock Exchange on September 1, 2004.

(3) Computed in accordance with Rules 457(a) and 457(c) under the Securities Act to be $6,710.72, which is equal to $6,701.06, the filing fee previously paid by Blockbuster in connection with the initial filing of this Registration Statement on June 28, 2004, plus $9.66, which is equal to 0.0001267 multiplied by the proposed maximum aggregate offering price of $77,452 with respect to the 9,562 additional shares included herewith.

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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EXPLANATORY NOTE

On [ ], Viacom Inc. (Viacom), the controlling stockholder of Blockbuster Inc. (Blockbuster), commenced an offer to exchange shares of Blockbuster class A common stock and Blockbuster class B common stock, par value $.01 per share, that Viacom and its subsidiaries own for shares of Viacom class A common stock, par value $.01 per share, and Viacom class B common stock, par value $.01 per share, owned by Viacom s stockholders. In addition to the shares of Blockbuster class A and class B common stock that are the subject of the exchange offer, as of the date hereof, Viacom owns 3,609,914 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 the exchange offer by contributing the shares to the Viacom Pension Plan and/or the CBS Combined Pension Plan. Pursuant to the amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has filed this Registration Statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan and/or the CBS Combined Pension Plan.

If the exchange offer does not result in the exchange of all of the shares of Blockbuster common stock that are the subject of the exchange offer, as soon as practicable following the completion of the exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class A and class B common stock, subject to certain limitations. In addition, Viacom has agreed to complete a spin-off under certain circumstances even if an exchange offer is not completed. For more information on the spin-off, see The Company Recent Developments Split-Off beginning on page 1 and Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement beginning on page 28. Pursuant to the amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has filed another Registration Statement on Form S-3 to facilitate the public resale of the Blockbuster class A and class B common stock that may be received by NAIRI, Inc., a wholly owned subsidiary of National Amusements, Inc., Mr. Sumner M. Redstone or any of their respective affiliates in any spin-off.

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

SUBJECT TO COMPLETION, DATED SEPTEMBER 2, 2004

PRELIMINARY PROSPECTUS

3,609,914 Shares of Class A Common Stock

of

BLOCKBUSTER INC.

The selling stockholders are offering to sell from time to time, at prices to be determined at the time of sale, up to 3,609,914 shares of Blockbuster class A common stock. Blockbuster will not receive any proceeds from the sale of the Blockbuster class A common stock by the selling stockholders.

The shares of Blockbuster class A common stock are listed on The New York Stock Exchange under the symbol BBI. On [ ], 2004, the closing sale price of Blockbuster class A common stock was $[ ].

Investing in the shares of Blockbuster class A common stock involves risks which are described in the section entitled Risk Factors beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004.

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Blockbuster has not authorized anyone to give any information or make any representation about this offer that is different from, or in addition to, that contained in this prospectus and the registration statement of which it forms a part or in any of the materials that are incorporated by reference into this prospectus and the registration statement of which it forms a part. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by these documents are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in these documents does not extend to you. The information contained in this prospectus and the registration statement of which it forms a part (including the information incorporated by reference) speaks only as of the date of this prospectus and the registration statement of which it forms a part unless the information specifically indicates that another date applies.

As used in this prospectus and the registration statement of which it forms a part, unless the context requires otherwise, references to Viacom include Viacom Inc. and its consolidated subsidiaries other than Blockbuster and its consolidated subsidiaries, and references to Blockbuster include Blockbuster Inc. and its consolidated subsidiaries.

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DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This prospectus and the registration statement of which it forms a part and the documents incorporated by reference into these documents contain both historical and forward-looking statements. These forward-looking statements reflect 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, estimate, plan, foresee, likely, will or other similar words or phrases. Similarly, statements concerning the borrowings by Blockbuster pursua to the new credit agreement and the senior subordinated notes, the exchange offer, the spin-off or agreements or arrangements relating to any of such matters or that describe 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 Blockbuster s actual results, performance or achievements to vary materially from what is expressed in or indicated by such forward-looking statements. Blockbuster cannot make any assurance that projected results or events will be achieved. The risk factors set forth in the section entitled Risk Factors beginning on page 6 and the matters discussed in Blockbuster s filings with the Securities and Exchange Commission, which is referred to in this prospectus as the SEC, 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 incorporated herein by reference could, among others, affect future results, causing these results to differ materially from those expressed in Blockbuster s forward-looking statements.

The forward-looking statements included and incorporated by reference in this prospectus are only made as of the date of this prospectus or the respective documents incorporated by reference herein, as applicable, and Blockbuster has no obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

See the sections entitled Risk Factors and Where You Can Find More Information About Blockbuster beginning on pages 6 and 52, respectively.

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THE COMPANY

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®. For more information, see 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 incorporated by reference into this prospectus.

Recent Developments

Split-Off

On June 18, 2004, Blockbuster and Viacom, Blockbuster s controlling stockholder, jointly announced the terms of the divestiture of Viacom s interest in Blockbuster. The separation of Blockbuster from Viacom is referred to in this prospectus as the split-off. On [ ], Viacom commenced an offer to exchange shares of Blockbuster class A common stock, par value $.01 per share, and Blockbuster class B common stock, par value $.01 per share, that Viacom and its subsidiaries own for shares of Viacom class A common stock, par value $.01 per share, and Viacom class B common stock, par value $.01 per share, owned by Viacom s stockholders. In connection with the exchange offer, Viacom has agreed to convert [ ] shares of Blockbuster class B common stock on a one-for-one basis into shares of Blockbuster class A common stock such that, following the completion of the 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.

In addition to the shares of Blockbuster class A and class B common stock that are the subject of the exchange offer, as of the date of this prospectus, Viacom owns 3,609,914 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 the exchange offer by contributing the shares to the Viacom Pension Plan and/or the CBS Combined Pension Plan. Pursuant to an amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has filed this prospectus and the registration statement of which it forms a part in order to facilitate the public resale of these shares by the Viacom Pension Plan and/or the CBS Combined Pension Plan.

If the exchange offer does not result in the exchange of all of the shares of Blockbuster common stock that are the subject of the exchange offer, as soon as practicable following the completion of the exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class A and class B common stock, except that once Viacom has distributed more than 80% of the total voting power of Blockbuster in the aggregate in the 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 Initial Public Offering and Split-Off Agreement beginning on page 28. This distribution by Viacom of its remaining Blockbuster common stock to its stockholders is referred to in this prospectus as the spin-off. In addition, Viacom has agreed to complete a spin-off under certain circumstances even if an exchange offer is not completed. For more information, see Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement beginning on page 28. Pursuant to the amended and restated registration

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rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has filed a registration statement on Form S-3 to facilitate the public resale of the Blockbuster class A and class B common stock that may be received by NAIRI, Inc., a wholly owned subsidiary of National Amusements, Inc., Mr. Sumner M. Redstone or any of their respective affiliates in any spin-off.

Payment of Special Distribution

On [ ], 2004, Blockbuster paid a special cash distribution of $5.00 per share (approximately $905.5 million in the aggregate), which is referred to in this prospectus as the special distribution, 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 9% senior subordinated notes due 2012, which are referred to in this prospectus 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. See Description of Indebtedness beginning on page 37.

Stock Option Adjustment

Holders of Blockbuster stock options as of the record date for the special distribution were not entitled to receive the special distribution. However, in order to maintain the intrinsic value of previously granted options in light of 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. The adjustments included the reduction of the exercise price of such stock options to an amount equal to (x) the original exercise price of such stock options multiplied by (y) the ratio of (1) the opening price per share on the ex-dividend date for the special distribution, to (2) the closing price per share on the business day before the ex-dividend date for the special distribution. Prior to the adjustment, the exercise prices of the options ranged from $[ ] to $[ ]. After the adjustment, the exercise prices ranged from $[ ] to $[ ]. The adjustments also resulted in an increase in the aggregate number of outstanding stock options from approximately [ ] million to approximately [ ] million.

New Blockbuster Credit Agreement

On August 20, 2004, Blockbuster entered into an agreement for a new $1.15 billion credit facility with a syndicate of lenders, which is referred to in this prospectus as the new credit agreement, which is secured by pledges of the stock of all of Blockbuster s domestic subsidiaries and 65% of the stock of certain of Blockbuster s foreign subsidiaries and guaranteed by the domestic subsidiaries of Blockbuster. The new credit agreement provides for three facilities: (i) a five-year $500 million revolving credit facility (of which up to $150 million is reserved for letters of credit provided by Blockbuster 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 as the Viacom letter of credit, although such reserve amount may be decreased from time to time by the joint instructions of Viacom and Blockbuster); (ii) a five-year $100 million Term A Loan Facility; and (iii) a seven-year $550 million Term B Loan Facility. At the initial drawing, Blockbuster borrowed $650 million under the Term A and Term B Loan Facilities, which together with the proceeds from the offering of the senior subordinated notes were used to fund the payment of the special distribution and finance transaction costs and expenses in connection with the split-off and the special distribution. At the same time, Blockbuster borrowed $50 million under the revolving credit facility to repay amounts then outstanding under its prior credit agreement. See Description of Indebtedness New Blockbuster Credit Agreement beginning on page 37, Note (1) of Notes to Unaudited Pro Forma Consolidated Condensed Financial Information on page 24 and Risk Factors Risk Factors Relating to Blockbuster s Business 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 on page 15.

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Issuance of Senior Subordinated Notes

On August 20, 2004, Blockbuster issued $300 million aggregate principal amount of 9% Senior Subordinated Notes due 2012. The terms of the senior subordinated notes are governed by an indenture entered into on that date among Blockbuster, Blockbuster s subsidiaries that are guarantors of the senior subordinated notes, and The Bank of New York Trust Company, N.A., as the trustee under the indenture. This indenture is referred to in this prospectus as the indenture. The senior subordinated notes will mature on September 1, 2012. Interest will accrue on the senior subordinated notes from August 20, 2004, and is payable on March 1 and September 1 of each year, with the first interest payment being due on March 1, 2005. Blockbuster may redeem all or a portion of the senior subordinated notes at any time on or after September 1, 2008, at redemption prices set forth in the indenture. Prior to September 1, 2008, Blockbuster may redeem all, but not less than all, the senior subordinated notes at a redemption price equal to the principal amount of the senior subordinated notes plus an applicable make whole premium and accrued and unpaid interest to the redemption date. In addition, at any time prior to September 1, 2007, Blockbuster may redeem up to 35% of the aggregate principal amount of the senior subordinated notes with the net proceeds of certain equity offerings at redemption prices set forth in the indenture. The senior subordinated notes are fully and unconditionally guaranteed on a senior subordinated basis, jointly and severally, by each of Blockbuster s existing domestic restricted subsidiaries (as defined in the indenture). For more information about the senior subordinated notes, see Description of Indebtedness Indenture Governing 9% Senior Subordinated Notes Due 2012 beginning on page 39 and Risk Factors Risk Factors Relating to Blockbuster s Business 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 on page 15.

Registration Rights Agreement

On August 20, 2004, Blockbuster entered into a registration rights agreement as part of the offering of the senior subordinated notes pursuant to which it is obligated to use its reasonable best efforts to file with the SEC a registration statement with respect to an offer to exchange the senior subordinated notes for substantially similar notes that are registered under the Securities Act. Alternatively, if the exchange offer for the senior subordinated notes is not available or cannot be completed or some holders of senior subordinated notes are not able to participate in the exchange offer for the senior subordinated notes, Blockbuster will be required to use its reasonable best efforts to file a shelf registration statement to cover resales of the senior subordinated notes under the Securities Act. If this exchange offer is not completed or the shelf registration statement, if applicable, is not declared effective or does not remain effective for a minimum period of time, Blockbuster will be required to pay additional interest on the senior subordinated notes under specified circumstances.

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*, 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 intends to perform an interim impairment test of its goodwill during the third quarter of 2004 due to recent developments related to this exchange offer. The exchange ratio and the market value of Blockbuster shares at the time of this exchange offer

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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 June 30, 2004 goodwill balance, which was $2.6 billion.

Amendments to Organizational Documents

Blockbuster s board of directors recommended that its stockholders approve certain amendments to its certificate of incorporation, and Blockbuster s stockholders approved these amendments at Blockbuster s 2004 annual meeting. The Blockbuster charter 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 the exchange offer. These amendments provide, among other things, that after completion of the transactions described above under The Company Recent Developments Split-Off beginning on page 1, 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 Initial Public Offering and Split-Off Agreement beginning on page 28. As of the date of this prospectus, Blockbuster anticipates 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. 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 section entitled Description of Capital Stock beginning on page 43.

Composition of Board of Directors

Effective as of the time that Viacom owns shares representing not more than 50% of the total voting power of Blockbuster, the members of Blockbuster s board of directors who are also directors or officers of Viacom will resign from Blockbuster s board of directors. These individuals are: Mr. Sumner M. Redstone, Chairman of the Board of Directors and Chief Executive Officer of Viacom; Mr. Richard J. Bressler, Senior Executive Vice President and Chief Financial Officer of Viacom; Mr. Philippe P. Dauman, member of Viacom s board of directors; and Mr. Michael D. Fricklas, Executive Vice President, General Counsel and Secretary of Viacom. In accordance with Blockbuster s bylaws, these vacancies will be filled by a vote of the majority of the Blockbuster directors remaining in office and/or the authorized number of directors on Blockbuster s board of directors will be reduced. As of the date of this prospectus, Blockbuster s board of directors has not identified the individuals who will fill these vacancies or what changes, if any, it will make to the size of the board of directors.

New Employment Agreement with Chairman and CEO

In connection with the split-off and related transactions, Blockbuster entered into a new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco, which provides for the issuance of restricted share units with an aggregate value of approximately $11.8 million. Approximately 1.0 million to 2.57 million restricted share units will be issued to Mr. Antioco based on the criteria outlined in the employment agreement. The restricted share units will be granted upon the fifth trading day after the distribution of control (as defined in Section 368(c) of the Internal Revenue Code of 1986, as amended) of Blockbuster. Half of the restricted stock units vest on the second anniversary of the distribution of control of Blockbuster and the other half vest on the third anniversary of the date of the distribution of control of Blockbuster. The vested restricted share units are payable in cash immediately after Mr. Antioco s termination of employment or such later date as may be determined under the terms of the employment agreement at the average value of the Blockbuster class A and class B common stock on the date of termination. The terms of the new employment agreement also include an increase in Mr. Antioco s annual salary of $0.4 million based upon the minimum amounts payable as set

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forth in the employment agreement. The employment agreement also calls for the issuance to Mr. Antioco of approximately 4.2 million to 5.0 million stock options for Blockbuster class A common stock. One-third of the options shall be granted on the fifth trading day after the distribution of control of Blockbuster, one-third on the thirtieth day after the distribution of control of Blockbuster and the final third shall be awarded on the sixtieth day after the distribution of control of Blockbuster. The options vest ratably in three equal installments on the first, second and third anniversaries of the distribution of control of Blockbuster.

Blockbuster s principal executive offices are located at 1201 Elm Street, Dallas, Texas 75270 and its phone number is (214) 854-3000. Blockbuster maintains a website at www.blockbuster.com. Information contained in or accessible through Blockbuster s website is not incorporated by reference into this prospectus and should not be considered a part hereof.

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RISK FACTORS

You should consider carefully all of the information set forth or incorporated by reference in this prospectus and, in particular, the following risk factors in considering whether to invest in Blockbuster. If any of the events described below were to occur, 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 Blockbuster class A common stock could decline, and you could lose all or part of your investment in Blockbuster.

In addition, for a discussion of additional uncertainties associated with (i) Blockbuster s businesses and (ii) forward-looking statements in this prospectus, see the section entitled Disclosure Regarding Forward-Looking Information on page ii.

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.

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In any wholesale pricing environment, the extent of 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.

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.

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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 is investing in new initiatives intended to enable Blockbuster to evolve into a complete source for movies and games. 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 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
- these technologies or new formats were to be widely accepted by consumers.

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

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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 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 Initial Public Offering and Split-Off Agreement beginning on page 28. 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.

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 intends to perform an interim impairment test of its goodwill during the third quarter of 2004 due to recent 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 June 30, 2004 goodwill balance, which was $2.6 billion.

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.

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,

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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, the 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 Viacom letter of credit and (b) other letters of credit issued in the ordinary course of business. See the section entitled Unaudited Pro Forma Consolidated Condensed Financial Information beginning on page 21. 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 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.

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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.

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 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 would 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 Description of Indebtedness beginning on page 37.

Blockbuster s Obligations Pursuant to the Initial Public Offering and Split-Off 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 Initial Public Offering and Split-Off Agreement between Blockbuster and Viacom, which is referred to in this prospectus as 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 Initial Public Offering and Split-Off Agreement beginning on page 28.

Blockbuster s Obligations Pursuant to the IPO Agreement to Maintain Letters 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

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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 section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement beginning on page 28.

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.

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 Item 3. Legal Proceedings in Blockbuster s Annual Report on Form 10-K for the year ended December 31, 2003 and Item 1. Consolidated Financial Statements Note 5 Commitments and Contingencies in Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 for a discussion of litigation matters relating to Blockbuster s business.

Risk Factors Relating to the Exchange Offer

After the 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 the 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 the 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 the exchange offer, Viacom and Blockbuster have amended these agreements. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions beginning on page 28 for a description of some of these agreements. Pursuant to the amended and restated transition services agreement, Viacom will no longer provide

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certain of these services as of the completion of the exchange offer and no longer provide certain other services as of 90 days following the completion of the 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 the 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 Blockbuster May Not Be Indicative of Its Results as an Independent Company

The historical and pro forma financial information of 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 Blockbuster would have been had it been an independent entity 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 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 Blockbuster cannot assure you that one will develop or be sustained after the exchange offer. Blockbuster class A common stock is currently listed on the New York Stock Exchange under the symbol BBI. Following the completion of the exchange offer, subject to authorization by the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B. Blockbuster cannot predict the prices at which the Blockbuster class A or class B common stock will trade after the exchange offer.

The 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 the 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 [ ] million shares of Blockbuster class B common stock and [ ] million shares of converted class A common stock in the 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 and/or the CBS Combined Pension Plan prior to the completion of the exchange offer. Blockbuster has filed this shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan and/or the CBS Combined Pension Plan. Following the exchange offer and any such resales, assuming the 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 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 the exchange offer.

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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 in the section entitled The Company Recent Developments Split-Off beginning on page 1, 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 Initial Public Offering and Split-Off Agreement beginning on page 28. As of the date of this prospectus, Blockbuster anticipates 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 the split-off 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 section entitled Description of Capital Stock beginning on page 43 for a summary of these anti-takeover provisions.

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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 the 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 the 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 Tax Matters Agreement beginning on page 34.

The Split-Off May Not Occur

Viacom has agreed that, if Blockbuster pays the special distribution, Viacom will (1) use commercially reasonable efforts to promptly dispose of 80% or more of the aggregate voting power of Blockbuster s outstanding capital stock in a split-off exchange offer or in a split-off exchange offer in combination with a spin-off or (2) if it has not disposed of control of Blockbuster pursuant to clause (1), that it will dispose of control of Blockbuster in a spin-off, in either case prior to the earlier of (a) the 12-month anniversary of the date on which Viacom receives its pro rata share of the special distribution and (b) September 30, 2005. Viacom, however, will not be required to engage in any disposal of Blockbuster capital stock if, at any time after the date on which Viacom receives its pro rata share of the special distribution, any of a number of conditions occurs. For a description of the conditions, see Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement beginning on page 28. As a result, the split-off could fail to occur, in which case Blockbuster would remain controlled by Viacom.

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USE OF PROCEEDS

Blockbuster will not receive any proceeds from the sale of Blockbuster class A common stock by the selling stockholders.

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BLOCKBUSTER UNAUDITED PRO FORMA

CONSOLIDATED CONDENSED FINANCIAL INFORMATION

Blockbuster s unaudited pro forma consolidated condensed statements of operations for the year ended December 31, 2003 and the six months ended June 30, 2004, and the unaudited pro forma consolidated condensed balance sheet as of June 30, 2004 have 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 year ended December 31, 2003 and Blockbuster s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, which are incorporated herein by reference. This data is based on various assumptions and includes the adjustments explained in the accompanying notes. The unaudited pro forma consolidated condensed statements of operations assume that the pro forma events occurred as of January 1, 2003. The unaudited pro forma consolidated condensed balance sheet assumes that the pro forma events occurred as of June 30, 2004.

The pro forma events include: (i) Blockbuster s borrowing of $700 million under its new credit agreement; (ii) the issuance of the $300 million of senior subordinated notes; (iii) Blockbuster s payment of the special distribution; (iv) Blockbuster s repayment of the $50 million outstanding under its prior credit agreement; (v) conversion of Blockbuster class B common stock to Blockbuster class A common stock; (vi) Blockbuster s new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco; (vii) Viacom s separation from Blockbuster; and (viii) the payment of fees and expenses related to the foregoing.

Blockbuster s 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 pro forma events described above in fact occurred 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 pro forma events discussed above, and that the pro forma adjustments give appropriate effect to the estimates and assumptions and are properly applied in Blockbuster s unaudited consolidated condensed financial information.

This data should be read together with the Blockbuster historical consolidated financial statements and accompanying notes and the related Management s Discussion and Analysis of Financial Condition and Results of Operations section 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 incorporated herein by reference.

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BLOCKBUSTER INC.

UNAUDITED PRO FORMA CONSOLIDATED CONDENSED BALANCE SHEET

At June 30, 2004

(in millions)

	Blockbuster Historical	Special Distribution[1]	Other Pro Forma Adjustments	Blockbuster Pro Forma
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 123.2	$ 34.1	$	$ 157.3
Receivables, net	149.5			149.5
Merchandise inventories	408.2			408.2
Prepaid assets and other current assets	196.2			196.2
Total current assets	877.1	34.1		911.2
Rental library, net	365.3			365.3
Receivable from Viacom, net	13.1			13.1
Property and equipment, net	810.7			810.7
Intangibles, net	35.8			35.8
Goodwill	2,637.1			2,637.1
Other assets	43.3	17.3		60.6