BLOCKBUSTER INC
Form 10-K
July 13, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 2, 2011.

OR

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

For the transition period from to

Commission File Number 001-15153

BLOCKBUSTER INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**52-1655102**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

2100 Ross Avenue

Dallas, Texas 75201

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A Common Stock, $.01 par value per share	**New York Stock Exchange**
Class B Common Stock, $.01 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of July 4, 2010, which was the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the registrant s common stock held by non-affiliates was $33,958,060, based on the closing price of $0.18 per share of Class A common stock and $0.11 per share of Class B common stock as reported on the New York Stock Exchange composite tape on that date.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No x

As of July 1, 2011, 147,370,491 shares of Class A common stock, $0.01 par value per share, and 72,000,000 shares of Class B common stock, $0.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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BLOCKBUSTER INC.

(DEBTOR-IN-POSSESSION)

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EXPLANATORY NOTE

As previously disclosed, on September 23, 2010, Blockbuster Inc. (the Company, we, or us) and certain of its domestic subsidiaries (collectively, the Debtors) filed voluntary petitions for relief (the Bankruptcy Filing) under chapter 11 (Chapter 11) of title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court) case number 10-14997 (the Chapter 11 Cases). On February 21, 2011, the Company together with certain of its subsidiaries (collectively, the Sellers) entered into an Asset Purchase and Sale Agreement (the Stalking Horse Agreement) with Cobalt Video Holdco LLC (the Stalking Horse). As part of the Stalking Horse Agreement, the Company filed a motion on February 21, 2011 with the Bankruptcy Court for, among other things, authority to sell substantially all of its assets to the Stalking Horse pursuant to Section 363 of the Bankruptcy Code, establishing bidding procedures (Bidding Procedures) to permit higher and better bids, setting a date for an auction (an Auction) should such bids be received and setting a hearing date for the approval of the sale of the assets to the winning bidder. On April 6, 2011, the Company completed the Auction pursuant to the Bidding Procedures previously approved by the Bankruptcy Court. As a result of the Auction, on April 6, 2011, the Company, in consultation with the agent for its senior secured lenders and the official committee of unsecured creditors appointed in the Company s Chapter 11 cases, selected DISH Network Corporation (DISH) as having the highest and best bid and the Sellers entered into an agreement with DISH, which agreement was amended and restated on April 20, 2011 (as amended and restated, the DISH Agreement) pursuant to which DISH agreed to purchase substantially all of the Company s assets (the Asset Sale). On April 26, 2011 (the Closing Date), the Asset Sale closed, whereupon, pursuant to the transactions contemplated by the DISH Agreement, DISH acquired all of the rights, title and interests in and to the Company assets listed on the schedules attached to and incorporated into the DISH Agreement. Certain of the Company s assets, including certain international subsidiary companies and operations, were not acquired by DISH. All assets remaining with the Company will be liquidated in connection with winding up the Company s business and distributing the proceeds of the Asset Sale.

We are currently winding up the Company s business and distributing the proceeds of the Asset Sale to our creditors. We expect that the Company s bankruptcy case will continue to be administered under Chapter 11 of the Bankruptcy Code for a limited period of time and thereafter will be converted to a liquidation under Chapter 7 of the Bankruptcy Code. At that point our corporate existence will be terminated and our shares of common and preferred stock will be cancelled. Under the distribution scheme previously approved by the Bankruptcy Court, our creditors are generally entitled to receive any distribution of the Asset Sale proceeds before our stockholders are entitled to receive any such proceeds. Since the Asset Sale proceeds are significantly less than our pre-petition liabilities, holders of secured and unsecured debt will receive substantially less than payment in full for their claims and our stockholders will receive no value for their shares of our common and preferred stock. The distribution of Asset Sale proceeds and conversion of the Chapter 11 Cases to a Chapter 7 liquidation of the Company are expected to be completed within the next several months.

As of July 12, 2011 (the filing date of our Form 10-K) we have paid the senior secured lenders $100 million from the Asset Sale proceeds. We anticipate paying the senior secured lenders an additional $24.6 million in July 2011. However, as of July 12, 2011 we can not estimate whether payments from the Asset Sale proceeds to the senior secured lenders will ever exceed $124.6 million.

As a result of the Asset Sale and Chapter 11 Cases, we are not currently conducting any business operations, nor will we do so in the future. Even though we sold substantially all of our cash and non-cash assets in the Asset Sale and have no operations, we are nonetheless required to make certain filings, including this Annual Report on Form 10-K (the Form 10-K) with the U.S. Securities and Exchange Commission (the SEC). **Accordingly, we are filing this Form 10-K solely to comply with SEC rules and nothing herein shall be construed to suggest or imply that the shares of our common and preferred stock have any value or that our stockholders will receive any value for their shares of common and preferred stock as a part of the Chapter 11 Cases or in connection with any Chapter 7 liquidation, since the amounts owed to creditors greatly exceed the amount of the Asset Sale proceeds.**

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DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may also be included from time to time in our other public filings, press releases, our website and oral and written presentations by management. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as may, expects, believes, anticipates, plans, estimate projects, predicts, targets, seeks, could, intends, foresees or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe our strategies, initiatives, objectives, plans or goals are forward-looking.

These forward-looking statements are based on management s current intent, belief, expectations, estimates and projections regarding our Company and our industry. These statements are not guarantees of future performance and involve risks, uncertainties, assumptions and other factors that are difficult to predict. Therefore, actual results may vary materially from what is expressed in or indicated by the forward-looking statements. The risk factors set forth below under Item 1A. Risk Factors, and other matters discussed from time to time in subsequent filings with the Securities and Exchange Commission, including the Disclosure Regarding Forward-Looking Information and Risk Factors sections of our Quarterly Reports on Form 10-Q, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements. In that event, our business, financial condition, results of operations or liquidity could be materially adversely affected and investors in our securities could lose part or all of their investments. Accordingly, our investors are cautioned not to place undue reliance on these forward-looking statements because, while we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate.

Further, the forward-looking statements included in this Form 10-K and those included from time to time in our other public filings, press releases, our website and oral and written presentations by management are only made as of the respective dates thereof. We undertake no obligation to update publicly any forward-looking statement in this Form 10-K or in other documents, our website or oral statements for any reason, even if new information becomes available or other events occur in the future.

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PART I

Item 1. *Business*
Bankruptcy Proceeding

As previously disclosed, on September 23, 2010, the Debtors filed the Chapter 11 Cases. On February 21, 2011, the Company together with certain of its subsidiaries (collectively, the Sellers) entered into the Stalking Horse Agreement. As part of the Stalking Horse Agreement, the Company filed a motion on February 21, 2011 with the Bankruptcy Court for, among other things, authority to sell substantially all of its assets to the Stalking Horse pursuant to Section 363 of the Bankruptcy Code, establishing Bidding Procedures to permit higher and better bids, setting a date for the Auction should such bids be received and setting a hearing date for the approval of the sale of the assets to the winning bidder. On April 6, 2011, the Company completed the Auction pursuant to the Bidding Procedures previously approved by the Bankruptcy Court. As a result of the Auction, on April 6, 2011, the Company, in consultation with the agent for its senior secured lenders and the official committee of unsecured creditors appointed in the Company s Chapter 11 cases, selected DISH as having the highest and best bid and the Sellers entered into the DISH Agreement pursuant to which DISH agreed to purchase substantially all of the Company s assets. On the Closing Date the Asset Sale closed, whereupon, pursuant to the transactions contemplated by the DISH Agreement, DISH acquired all of the rights, title and interests in and to the Company assets listed on the schedules attached to and incorporated into the DISH Agreement. Certain of the Company s assets, including certain international subsidiary companies and operations, were not acquired by DISH. All assets remaining with the Company will be liquidated in connection with winding up the Company s business and distributing the proceeds of the Asset Sale.

We are currently winding up the Company s business and distributing the proceeds of the Asset Sale to our creditors. We expect that the Company s bankruptcy case will continue to be administered under Chapter 11 of the Bankruptcy Code for a limited period of time and thereafter will be converted to a liquidation under Chapter 7 of the Bankruptcy Code. At that point our corporate existence will be terminated and our shares of common and preferred stock will be cancelled. Under the distribution scheme previously approved by the Bankruptcy Court, our creditors are generally entitled to receive any distribution of the Asset Sale proceeds before our stockholders are entitled to receive any such proceeds. Since the Asset Sale proceeds are significantly less than our pre-petition liabilities, holders of secured and unsecured debt will receive substantially less than payment in full for their claims and our stockholders will receive no value for their shares of our common and preferred stock. The distribution of Asset Sale proceeds and conversion of the Chapter 11 Cases to a Chapter 7 liquidation of the Company are expected to be completed within the next several months.

As of July 12, 2011 (the filing date of our Form 10-K) we have paid the senior secured lenders $100 million from the Asset Sale proceeds. We anticipate paying the senior secured lenders an additional $24.6 million in July 2011. However, as of July 12, 2011 we can not estimate whether payments from the Asset Sale proceeds to the senior secured lenders will ever exceed $124.6 million.

Business Overview

We currently have no ongoing business operations and will not have any operations in the future. At January 2, 2011, Blockbuster Inc. was a global provider of rental and retail movie and game entertainment, with over 5,300 stores in the United States, its territories and 15 other countries. Our business model was to provide customers with access to media entertainment, including movie and game entertainment delivered through multiple distribution channels such as stores, by-mail, vending kiosks and digital devices. Our business and operations were previously conducted by Blockbuster Entertainment Corporation, which was incorporated in Delaware in 1982 and entered the movie rental business in 1985. Blockbuster Inc., formerly an indirect subsidiary of Viacom Inc. (Viacom), was incorporated under a different name on October 16, 1989 in Delaware. On September 29, 1994, Blockbuster Entertainment Corporation was merged with and into Viacom. Subsequent to the merger, our business and operations were conducted by various indirect subsidiaries of Viacom. Over the year and a half prior to our initial public offering in August 1999, our business and operations were either (1) merged into Blockbuster Inc. or (2) purchased by Blockbuster Inc. and/or one of its subsidiaries. In October 2004, Blockbuster Inc. split off from Viacom and became a fully independent company.

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Stores and Store Operations

As of January 2, 2011, we had 3,090 stores operating under the BLOCKBUSTER® brand in the United States and its territories. Of these stores, 330 stores were operated through our franchisees. Our stores offered movie and game rental and new and traded movie and game product to our customers as well as consumer electronics. Additionally, 218 of these locations included additional branding as game concept stores operating under the GAME RUSH® brand. In 2009 we introduced Direct Access, which allowed in-store customers to access our by-mail inventory and have a movie shipped directly to their homes. Also, in 2009, we launched the Blockbuster app for iPhone, which allowed customers to browse our complete catalog of movies and television shows, check real-time store inventory, locate stores and build and manage their online rental queues.

Franchised Operations

At January 2, 2011, 54 domestic franchisee entities operated 330 stores in the United States and 276 international franchisee entities operated 692 stores outside of the United States. Our $3.2 billion in revenues during fiscal 2010 does not include the actual revenues of our franchisees, as we only record royalty and fee revenues generated from our franchised operations. Pursuant to the DISH Agreement, DISH purchased all rights to our franchise agreements.

By-Mail

Our by-mail program allowed subscribers to select DVDs and games online, which were then shipped to them free of charge by U.S. mail. Once a subscriber had finished viewing the DVD, the subscriber could return the DVD either via mail using the postage prepaid envelope that accompanied the DVD or game or at a participating BLOCKBUSTER store. BLOCKBUSTER Total Access took the concept of convenient DVDs by mail a step further and gave online subscribers the option of exchanging their DVDs through the mail or at a nearby participating BLOCKBUSTER store. There were no due dates for DVDs and games shipped via these online programs.

Digital

Our digital service allowed customers to download many new release and catalog movies, television shows and other popular videos for rental or purchase. The customers could then watch the downloaded programs on their computer, television or portable electronic device. Downloaded videos that were rented could be stored for up to 30 days after the customer checks out and then watched as many times as desired during a 24-hour viewing period that commences when Play Movie is clicked. We did not charge any subscription, membership or late fees for our digital service. In 2009, we launched our BLOCKBUSTER On Demand® service through Samsung and TiVo, allowing customers to buy and enjoy new movies through connected consumer electronic products. In 2010, we continued to expand our BLOCKBUSTER On Demand service by increasing the roster of consumer electronic product device partners and by expanding our service offerings to include select mobile smartphones.

Vending Kiosks

In 2008 we entered into an agreement with NCR (the NCR Agreement) to begin a Blockbuster branded vending kiosk business, expanding our overall points of distribution by placing kiosks in locations that were convenient to our customers. Vending kiosks offered customers a cost effective opportunity to rent DVDs at a low daily rate. The machines offered DVDs for rental or sale. These kiosks were owned and operated by NCR, who controlled pricing and location of the kiosks and provided most of the product. DISH did not purchase our agreement with NCR. On May 11, 2011, we filed a motion with the Bankruptcy Court to reject and terminate the NCR agreement.

International Operations

As of January 2, 2011, we had 2,245 stores in 15 markets outside of the United States operating under the BLOCKBUSTER brand and other brand names we owned. Of these stores, 692 stores were operated through our franchisees. In Canada, Italy, Mexico and Denmark, we operate store-in-store game locations in addition to freestanding game locations in Mexico and Italy, all under the GAME RUSH brand. During 2010 and 2009, 34% and 30% of our worldwide revenues were generated outside of the United States, respectively. Our international operations have historically been more dependent on retail sales and, in particular, the retail game industry. Pursuant to the DISH Agreement, DISH purchased our international subsidiaries in the United Kingdom, Mexico, Denmark and Uruguay. Our remaining international subsidiary companies, including several dormant companies will be liquidated.

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Employees

As of the Closing Date, our only employee is Bruce Lewis, who is our Principal Financial Officer, Principal Executive Officer and Secretary. Mr. Lewis is primarily responsible for completing required regulatory filings and distributing the proceeds of the Asset Sale. As of January 2, 2011, we employed approximately 25,000 persons in the United States.

Mr. Lewis has served as our Senior Vice President since September 2004. He is the Company s Controller and is also responsible for the Company s tax matters. Mr. Lewis joined Blockbuster in 2001 and has performed the roles of Treasurer, VP of Internal Controls, International Controller and Tax Director. Before joining Blockbuster, Mr. Lewis held various leadership positions with Lend Lease REI, Cinemark and Deloitte & Touche.

Directors and Executive Officers of the Registrant

In connection with the closing of the DISH Sale on April 26, 2011, all of our executive officers either resigned or were terminated. Mr. Thomas Kurrikoff, Senior Vice President, resigned. The employment of Mr. James Keyes, Chief Executive Officer, Mr. Dennis McGill, Chief Financial Officer, Mr. Rod McDonald, Senior Vice President, Secretary and General Counsel, Mr. Kevin Lewis, Senior Vice President, and Mr. Roger Dunlap, Senior Vice President, was terminated. Upon termination, each of Mr. McGill, Mr. Lewis and Mr. Dunlap accepted positions as officers of Blockbuster LLC, a wholly-owned subsidiary company of DISH; Mr. Keyes accepted a position as advisor to Blockbuster LLC; and Mr. McDonald was retained by the Company as an advisor to assist in the wind-down and liquidation.

Each of our directors submitted resignations effective as of April 26, 2011, with the exception of Mr. Fernandes, Mr. Fitzsimmons and Mr. Keyes, each of whom agreed to remain on the board to assist us with the wind-down and liquidation. On May 6, 2011, Mr. Keyes submitted his notice of resignation as Chairman of the Board and a director to avoid any potential conflict of interest or appearance of conflict of interest in connection with his ongoing responsibilities as an advisor to Blockbuster LLC. Currently, our board of directors consists of Mr. Fernandes and Mr. Fitzsimmons. Messrs. Fernandes and Fitzsimmons serve without compensation and continue to oversee certain aspects of the wind up of the Company s business.

Available Information, Investor Relations and Certifications

We filed annual, quarterly and current reports, information statements and other information with the Securities and Exchange Commission (SEC). In addition, we file monthly operation results as required under bankruptcy. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

We do not operate a website, but we will make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. Such material is available by mail upon written request as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Requests for such materials should be directed to: Secretary, Blockbuster Inc., 2100 Ross Avenue, 21st Floor, Dallas, TX 75201.

Stock Transfer Agency

American Stock Transfer & Trust Company, LLC

59 Maiden Lane

New York, NY 10038

Questions and inquiries via telephone or AST s website:

(800) 937-5449

http://www.amstock.com

Stock Listing

Blockbuster Inc. Class A and Class B common stock currently trade on the OTCQB under the symbols BLOAQ and BLOBQ, respectively.

Item 1A. Risk Factors

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of Blockbuster Inc. The Company and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this Form 10-K and our other filings with the SEC and in our reports

to stockholders. Generally, the words, believe, expect, intend, estimate, anticipate, will and similar expressions identify forward-looking statements. All statements addressing events that we expect to occur in the future are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based upon our then current views and assumptions regarding future events, and speak only as of their respective dates. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Because the proceeds from the Asset Sale did not exceed the amounts we owe our creditors, our stockholders will receive no value for their common and preferred stock and our creditors will receive substantially less than payment in full for their claims.

As further described above, we sold substantially all of our cash and non-cash assets to DISH in the Asset Sale as part of the Chapter 11 Cases. Under the distribution scheme previously approved by the Bankruptcy Court, our creditors are generally entitled to receive all proceeds of the Asset Sale before our stockholders are entitled to receive any such proceeds. Since the proceeds of the Asset Sale are substantially less than our pre-petition liabilities, holders of our secured and unsecured debt will receive substantially less than payment in full for their claims and our stockholders will receive no value for their shares of common and preferred stock as part of the Chapter 11 Cases or in connection with any Chapter 7 liquidation.

Our Class A and Class B common stock continue to be quoted on the Pink Sheets even though our stockholders will not receive any value for their shares of common stock as part of the Chapter 11 Cases and our corporate existence will be terminated and our common and preferred stock cancelled once we have completed distribution of the proceeds of the Asset Sale.

Our Class A and Class B common stock was delisted from the New York Stock Exchange in July 2010 and since then has been quoted on the Pink Sheets under the symbols BLOAQ and BLOBQ, respectively. As discussed above, under the priority distribution scheme previously approved by the Bankruptcy Court, our stockholders will receive no value for their shares of common and preferred stock as part of the Chapter 11 Cases and our corporate existence will be terminated once we have completed the distribution of the proceeds of the Asset Sale to our creditors. **Accordingly, even though our common stock continues to be quoted on the Pink Sheets, our common stock has no value and our stockholders should not view the trading activity of our common stock on the Pink Sheets or any other market or trading platform as being indicative of the value our stockholders will receive as part of the Chapter 11 Cases or in connection with any Chapter 7 liquidation.**

We have been involved in the Chapter 11 Cases since the third quarter of fiscal 2010, which has resulted in steady attrition among key management and employees, and which may have adversely affected our internal control over financial reporting.

This has contributed to our inability to timely prepare our financial statements reflecting the changes brought about as a result of the Chapter 11 Cases and file this Form 10-K. In addition, as previously, disclosed, on May 6, 2011 we announced the departure of substantially all of the Company Board of Directors and the Company s Principal Executive Officer and Principal Financial Officer, and the consolidation of those two offices in the Company s sole remaining employee. The departing individuals were important to

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our financial reporting and control process, and their departure has led to material adjustments to the way in which we prepare and report financial information subsequent to the date of the audited financial statements included in this form 10-K, including our ability to maintain an Audit Committee fully constituted in compliance with NYSE listing standards and SEC regulations.

As a result of the significant changes in our workforce composition, management structure and operational efficiencies occurring in connection with the Chapter 11 Cases, particularly since the end of our fiscal year 2010 on January 2, 2011, management has identified the following changes in our internal control over financial reporting:

- The Chapter 11 Cases have resulted in the loss of key Company personnel and required substantial effort from our limited management personnel and support staff, and contributed to our inability to timely file this Form 10-K on a timely basis, and the reduction of our finance and executive management resources has also potentially impacted supervision and review and management oversight processes, as well as segregation of duties processes; and

- The Chapter 11 Cases, the cessation of our operations following the DISH Sale, our substantial workforce reductions, and the departure of the majority of our Board of Directors contributed to our inability to maintain appropriate oversight of our operational and financial activities as well as corporate governance, including an Audit Committee fully constituted in compliance with NYSE listing standards and SEC regulations.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As a result of the Asset Sale, we no longer own or lease any properties or facilities. However, pursuant to the Store License Agreement entered into in connection with the DISH Sale Agreement, lease agreements for certain designated store locations continue to remain in our name (the Retained Leases) pending a determination by DISH as to whether it will assume any or all of the Retained Leases. DISH has a limited option period (the Retained Lease Option Period) during which to make such designations as to the Retained Leases it wishes to take and those it does not. The Retained Lease Option Period expires on the day 90 days following the Closing Date. For each of the Retained Leases that DISH determines to take, we will move the Bankruptcy Court to approve our acceptance of such lease and, upon Bankruptcy Court approval of our acceptance, will enter into an assignment and assumption agreement with DISH for such lease. For each of the Retained Leases that DISH determines not to take or for which it has not made a determination during the Retained Lease Option Period, we will move the Bankruptcy Court to reject such lease and, upon Bankruptcy Court approval of rejection, such lease will be terminated. During the pendency of the Retained Lease Option Period, all operations under the Retained Leases are conducted by DISH employees for the benefit of DISH, and all expenses incurred thereby are borne by DISH.

Item 3. ***Legal Proceedings***

Information regarding our material legal proceedings is set forth in Note 12 to the consolidated financial statements, in Item 8 of Part II of this Form 10-K, which information is incorporated herein by reference.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Our Class A common stock began trading on the New York Stock Exchange, or NYSE, on August 11, 1999, following our initial public offering and our Class B common stock began trading on the NYSE on October 14, 2004, in conjunction with our divestiture from Viacom Inc. (Viacom). Effective July 7, 2010, the shares of Blockbuster Class A and Class B common stock began trading on the Pink OTCQB market, currently under the symbols BLOAQ and BLOBQ, respectively. The following table contains, for the periods indicated, the high and low sales prices per share of our Class A and Class B common stock (as reported by the NYSE composite tape prior to July 7, 2010, and by the OTCQB thereafter) and cash dividends per share of our Class A and Class B common stock:

	Blockbuster Class A Common Stock		Blockbuster Class B Common Stock		Cash Dividends per share of
	Sales Price		Sales Price		
	High	Low	High	Low	Common Stock(1)
Year Ended January 3, 2010:					
Quarter Ended April 5, 2009	$ 1.71	$ 0.13	$ 1.15	$ 0.08	$
Quarter Ended July 5, 2009	$ 1.26	$ 0.61	$ 0.68	$ 0.34	
Quarter Ended October 4, 2009	$ 1.56	$ 0.58	$ 0.89	$ 0.30	
Quarter Ended January 3, 2010	$ 1.14	$ 0.60	$ 0.65	$ 0.32	
Year Ended January 2, 2011:					
Quarter Ended April 4, 2010	$ 0.83	$ 0.24	$ 0.67	$ 0.18	
Quarter Ended July 4, 2010	$ 0.60	$ 0.15	$ 0.52	$ 0.09	
Quarter Ended October 3, 2010	$ 0.21	$ 0.04	$ 0.11	$ 0.02	
Quarter Ended January 2, 2011	$ 0.28	$ 0.04	$ 0.14	$ 0.02	

(1) We have not declared a dividend on our common stock since the second quarter of 2005. Our negative surplus, as defined by Delaware Corporation Law, and covenants under our senior secured notes prohibited us from declaring any dividends. We were further prohibited from declaring and paying dividends on our common stock by a final order of the Bankruptcy Court during the pendency of the Chapter 11 Cases. We are currently winding up the Company s business and distributing the proceeds of the Asset Sale to our creditors. We expect that the Company s bankruptcy case will continue to be administered under Chapter 11 of the Bankruptcy Code for a limited period of time and thereafter will be converted to a liquidation under Chapter 7 of the Bankruptcy Code. At that point our corporate existence will be terminated and our shares of common and preferred stock will be cancelled. Therefore, no additional dividends will be declared or paid on our common stock.

The number of holders on record of shares of our Class A and Class B common stock as of May 6, 2011 was 1,063 and 737, respectively.

For information regarding our equity compensation plans, refer to Item 12 of Part III of this Form 10-K.

Related Stockholder Matters

Our Board of Directors determined not to declare or pay a dividend on our shares of Series A convertible preferred stock with respect to the seven consecutive quarterly periods beginning on February 15, 2009 and ending on November 14, 2010. Dividends on the Series A convertible preferred stock are cumulative and began to accumulate on May 15, 2009. Accumulated dividends are recorded on our consolidated balance sheet in Liabilities subject to compromise as of January 2, 2011. Additionally, pursuant to a final order entered by the Bankruptcy Court in connection with the filing of the Chapter 11 Cases we are prevented from declaring and paying dividends during the pendency of the Chapter 11 Cases, which order has precluded declaration and payment of dividends in the three quarterly periods since the filing of the Chapter 11 Cases. Under Delaware law, we can only pay dividends on our shares of capital stock out of our surplus, or, if we do not have a surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. For these purposes a surplus can be defined as the excess at any given time of a company s net assets over capital, which is the aggregate par value of the outstanding shares of capital stock. We

currently have a negative surplus and have no net profits

for fiscal 2010 or fiscal 2011 to date. Under Delaware law, we are unable to pay dividends on shares of our capital stock, whether in cash or in shares of common stock, for so long as such negative surplus exists or until we generate sufficient net profits. As such, no dividends will be paid.

In the year ended January 2, 2011, 115,589 shares of our Series A convertible preferred stock were converted, resulting in the issuance of approximately 23.9 million shares of our Class A common stock. This included 1.5 million shares of our Class A common stock as settlement for accumulated dividends on the converted shares through the date of conversion. Pursuant to a final order entered by the Bankruptcy Court, further conversions of the Series A convertible preferred stock into common stock or other form of equity ownership in the Debtors are prohibited during the pendency of the Chapter 11 Cases.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
(Tabular Dollars in Millions)

Unless otherwise noted, the following discussion and analysis relates only to results from continuing operations. The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Form 10-K. Although we have no ongoing operations and will not have any operations in the future as a result of the Bankruptcy Cases and the Asset Sale, our consolidated financial statements have been prepared assuming that we will continue as a going concern. We incurred a net loss from operations in the year ended January 2, 2011 and have a stockholders deficit as of January 2, 2011. In addition, the increasingly competitive industry conditions under which we have operated have negatively impacted our results of operations and cash flows. The consolidated financial statements do not include any adjustments that resulted from the Asset Sale.

Current Operations

As a result of the Asset Sale and Chapter 11 Cases, we are not currently conducting any business operations, nor will we do so in the future. We are currently winding up the Company s business and distributing the proceeds of the Asset Sale to our creditors. We expect to file a plan of liquidation with the Bankruptcy Court and anticipate that the Bankruptcy Court will approve the appointment of a Chapter 7 trustee to oversee liquidation of the Company within the next several months. At that point our corporate existence will be terminated and our shares of common and preferred stock will be cancelled. Under the distribution scheme previously approved by the Bankruptcy Court, our creditors are generally entitled to receive any distribution of the Asset Sale proceeds before our stockholders are entitled to receive any such proceeds. Since the Asset Sale proceeds are significantly less than our pre-petition liabilities, holders of secured and unsecured debt will receive substantially less than payment in full for their claims and our stockholders will receive no value for their shares of our common and preferred stock. The distribution of Asset Sale proceeds and conversion of the Chapter 11 Cases to a Chapter 7 liquidation of the Company is expected to be completed within the next several months.

Fiscal Year

Beginning on January 1, 2007, we changed our fiscal year from a calendar year ending on December 31st to a 52/53 week fiscal year ending on the first Sunday following December 30th. Fiscal 2010 and 2009 include the 52 weeks ended January 2, 2011 and January 3, 2010, respectively.

Overview

Blockbuster Inc. was a leading global provider of in-home rental and retail movie and game entertainment, with over 5,300 stores in the United States, its territories and 15 other countries as of January 2, 2011. We also offered rental and retail movie entertainment through the Internet and by mail in the United States. We provided our customers access to media entertainment across four channels of distribution:

in-store,

by-mail,

vending kiosks, and

digital devices.

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Bankruptcy Filing under Chapter 11 of the U.S. Bankruptcy Code

As previously disclosed, on September 23, 2010, the Company and certain of its domestic subsidiaries filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York case number 10-14997.

DIP Credit Agreement

In connection with the Bankruptcy Filing, on September 23, 2010, the Company entered into a Senior Secured, Super-priority Debtor-in-Possession Revolving Credit Agreement (the DIP Credit Agreement) with the Company s subsidiaries signatory thereto (Subsidiary Guarantors), the lenders signatory thereto (the Lenders) and Wilmington Trust FSB, as agent (the Agent). Pursuant to the terms of the DIP Credit Agreement, the Lenders agreed to lend up to $125,000,000 in the form of revolving loan advances, the Subsidiary Guarantors agreed to guarantee the Company s obligations thereunder and the Company and Subsidiary Guarantors agreed to secure their obligations under the loan documents by granting the Agent, for the benefit of the Agent and the Lenders, a first-priority security interest in and lien upon all of the Company s and Subsidiary Guarantors existing and after-acquired personal and real property. The Company had the option to have interest on the loans provided under the DIP Credit Agreement accrue at an index rate (a function of the then -applicable base rate) or the then-applicable LIBOR rate (with a floor of 2.0%), plus a margin of 8.5% and 7.5%, respectively. The DIP Credit Agreement limited, among other things, the Company s and Subsidiary Guarantors ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay subordinated indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of any subordinated indebtedness and certain material contracts of the Company and the Subsidiary Guarantors. In addition to standard obligations, the DIP Credit Agreement provided for (x) a periodic delivery by the Company of its budget that had to be approved by a requisite number of Lenders set forth in the DIP Credit Agreement and (y) specific milestones that the Company must achieve by specific target dates. The Company paid the Agent a customary agency administration fee in connection with the DIP Credit Agreement.

Approved Operating Budget

On February 6, 2011, the Requisite Lenders (as defined in the DIP Credit Agreement) approved the Proposed Budget (as defined in the DIP Credit Agreement) (such approved budget, the Approved Budget) covering the period commencing with the fiscal week beginning on February 6, 2011 and ending upon the earliest to occur of (i) February 24, 2011, (ii) the entry of an order by the Bankruptcy Court approving the Sale Expense Motion (defined below), or (iii) the date the Approved Budget is terminated pursuant to the terms of the approval or the terms of the DIP Credit Agreement or the DIP Order (the Last Applicable Date). No other Proposed Budget was approved by the Requisite Lenders or was otherwise applicable for any period after the Last Applicable Date. The Approved Budget limited the Debtors use of cash collateral.

The Requisite Lenders approval of the Approved Budget and use of cash collateral as provided therein was expressly subject to and conditioned upon the Debtors filing on or prior to February 21, 2011 (which filing has occurred), and not withdrawing thereafter, all of the following:

(i) a motion (the Sale Expense Motion) requesting authority to elevate to super-priority status and pay the following and only the following: (A) Covered Administrative Expense Claims (as defined below) incurred or accrued by the Debtors from and after February 21, 2011 in connection with the sale of all or substantially all of the Debtors assets pursuant to section 363 of the Bankruptcy Code and (B) Covered Ongoing Approved Administrative Expenses (as defined below); and

(ii) a motion, which may be the same motion as (i) above, seeking authority to sell all or substantially all of the Debtors assets pursuant to section 363 of the Bankruptcy Code subject to the highest and best bid, all in form and substance agreed to by the Debtors with the reasonable consent of the Requisite Lenders, provided such consent cannot be unreasonably withheld.

Covered Administrative Expense Claims and Covered Ongoing Approved Administrative Expenses are defined as and limited to only those expenses, including appropriate costs to windup or otherwise resolve the Chapter 11 Cases (as defined in the DIP Credit Agreement), labeled as either Covered Administrative Expense Claims or Covered Ongoing Approved Administrative Expenses in a detailed sale budget to be approved by the Requisite Lenders. Some of the Covered Ongoing Approved Administrative Expenses may relate to the period prior to February 21, 2011.

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Stalking Horse Agreement

On February 21, 2011, the Company together with certain of its subsidiaries (collectively, the Sellers) entered into an Asset Purchase and Sale Agreement (the Stalking Horse Agreement) with Cobalt Video Holdco LLC (the Stalking Horse). The Stalking Horse is an affiliate of certain of (i) the Lenders under the DIP Credit Agreement, and (ii) the beneficial owners (or advisors, nominees or investment managers for such beneficial owners) of the Company s 11.75% Senior Secured Notes due 2014.

As part of the Stalking Horse Agreement, the Company filed a motion on February 21, 2011 with the Bankruptcy Court for, among other things, authority to sell substantially all of its assets to the Stalking Horse pursuant to Section 363 of the Bankruptcy Code, establishing bidding procedures (Bidding Procedures) to permit higher and better bids, setting a date for an auction (an Auction) should such bids be received and setting a hearing date for the approval of the sale of the assets to the winning bidder.

Termination of DIP Credit Agreement

On February 25, 2011 (the Termination Date), the Company received a Notice of Event of Default and Termination Letter (the Termination Letter) pursuant to which the Lenders notified the Company that an Event of Default under the DIP Credit Agreement had occurred and was continuing as of the Termination Date. As a result of the Event of Default, the Lenders directed the Agent, which direction the Agent carried out by execution of the Termination Letter, to (i) terminate the Commitment of the Lenders to make further Revolving Loan Advances, and (ii) declare all Obligations, including all of the Revolving Loans, to be due and payable (the Specified Remedies). As a result of the Specified Remedies, the financing arrangements contemplated by the DIP Credit Agreement were, pursuant to the Termination Letter, terminated (the DIP Termination) and the Loans and all other Obligations became automatically due and payable as of the Termination Date. Demand was made of the Company and each other Credit Party to repay their Obligations to the Agent or any Lender under the Loan Documents. As of the Termination Date, there were no outstanding draws under the DIP Credit Agreement.

On February 25, 2011, the Agent, on behalf of the Requisite Lenders, delivered a Carve-Out Trigger Notice specifying that: (i) as a result of the DIP Termination a Termination Event (under and as defined in the Final DIP Order) had occurred, (ii) the DIP Obligations had been accelerated, and (iii) a $5,000,000 cap on all unpaid fees, disbursements, costs and expenses (subject to certain restrictions) incurred after the first business day following the Termination Date by the Professional Persons had been invoked.

Delivery of the Carve-Out Trigger Notice constituted a roll-up event (a Roll-Up Event) under the Final DIP Order. Under the Final DIP Order, each entity that is both a beneficial holder of the Company s 11.75% Senior Secured Notes due 2014 (the Senior Secured Notes) and a Lender as of the occurrence of a Roll-Up Event (such date, the Roll-Up Date) is entitled to receive all or any portion of such Senior Secured Notes as roll-up notes (the Roll-Up Notes), up to an amount of Roll-Up Notes with an aggregate principal balance equal to the lesser of (i) the total outstanding principal amount of Senior Secured Notes held by such entity on the Roll-Up Date, or (ii) the amount of such Lender s aggregate commitment to make DIP Loans under the DIP Credit Agreement, determined as of the Roll-Up Date, on the basis of the then outstanding commitments and after giving effect to all assignments of commitments under the DIP Credit Agreement and outstanding Revolving DIP Loans made prior to the Roll-Up Date. The aggregate principal amount of such Roll-Up Notes will not exceed $125,000,000. The Roll-Up Notes are secured by the DIP Liens and the DIP Collateral (excluding Avoidance Action Proceeds) retroactive to the Commencement Date and the entire outstanding amount of the obligations under the Roll-Up Notes are allowed Superpriority Claims, as provided in the Final DIP Order, as of any date of calculation in addition to their continuing claims and liens as Senior Secured Notes.

Section 363 Asset Sale

On April 6, 2011, the Company completed the Auction pursuant to the Bidding Procedures previously approved by the Bankruptcy Court. As a result of the Auction the Company, in consultation with the agent for its senior secured lenders and the official committee of unsecured creditors appointed in the Company s Chapter 11 cases, selected DISH as having the highest and best bid and the Sellers entered into an agreement with DISH pursuant to which DISH agreed to purchase substantially all of the Company s assets. The DISH Agreement was amended and restated on April 20, 2011.

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Pursuant to the terms of the DISH Agreement, DISH agreed to purchase substantially all of the assets of the Company and assume certain of the Company s obligations associated with the purchased assets through a supervised sale under Section 363 of the Bankruptcy Code. The purchase price for such assets under the DISH Agreement was approximately $320,000,000, subject to certain adjustments. The DISH Agreement contained, among other things, certain customary termination rights for the Company and DISH and rights and obligations regarding assumption and/or liquidation of certain of the Company s assets.

The proposed transaction was approved by the Court at a hearing on April 7, 2011 and was completed on April 26, 2011. Pursuant to the Bidding Procedures, the Stalking Horse was selected as the backup bidder in the event the transaction with DISH had not been consummated. On the Closing Date the Asset Sale closed, whereupon, pursuant to the DISH Agreement, DISH acquired all of the rights, title and interests in and to the Company assets listed on the schedules attached to and incorporated into the DISH Agreement. Certain of the Company s assets, including certain international subsidiary companies and operations, were not acquired by DISH. All assets remaining with the Company will be liquidated in connection with winding up the Company s business and distributing the proceeds of the Asset Sale.

Outlook

Business Operations

As a result of the Asset Sale, we have no ongoing business operations and will have no business operations in the future. We are currently winding down the Company and distributing the proceeds of the Asset Sale to our creditors. We expect that the Company s bankruptcy case will continue to be administered under Chapter 11 of the Bankruptcy Code for a limited period of time and thereafter will be converted to a liquidation under Chapter 7 of the Bankruptcy Code. At that point our corporate existence will be terminated and our shares of common and preferred stock will be cancelled.

Exchange Delisting

On July 1, 2010, the New York Stock Exchange (the Exchange) notified us that, due to our noncompliance with the Exchange s continued listing standards relating to minimum trading price and market capitalization, trading on the Exchange of our Class A common stock and Class B common stock (the common stock) would be suspended prior to the opening on July 7, 2010. As a result, effective July 7, 2010, our Class A and Class B common stock trade on the Pink OTCQB market under the symbols BLOAQ and BLOBQ, respectively. **Even though our common stock continues to be quoted on the Pink Sheets, our common stock has no value and our stockholders should not view the trading activity of our common stock on the Pink Sheets or any other market or trading platform as being indicative of the value our stockholders will receive as part of the Chapter 11 Cases or in connection with any Chapter 7 liquidation.**

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Results of Operations

Consolidated Results

The following table sets forth a summary of consolidated results of certain operating and other financial data.

	Fiscal Year Ended	
	January 2, 2011 (52 weeks)	January 3, 2010 (52 weeks)
	(In millions, except worldwide store data)	
Statement of Operations Data:		
Revenues	$ 3,240.7	$ 4,051.1
Cost of sales	1,469.4	1,879.9
Gross profit	1,771.3	2,171.2
Operating expenses (1)	1,899.5	2,522.5
Operating income (loss)	(128.2)	(351.3)
Interest expense	(94.3)	(111.5)
Loss on extinguishment of debt		(29.9)
Interest income	0.8	1.3
Other items, net (2)	(2.9)	(10.4)
Income (loss) from continuing operations before reorganization items and income taxes	(224.6)	(501.8)
Reorganization items, net	(9.7)	
Benefit (provision) for income taxes	(7.4)	(11.8)
Income (loss) from continuing operations	(241.7)	(513.6)
Income (loss) from discontinued operations, net of tax (3)	(26.3)	(44.6)
Net income (loss)	$ (268.0)	$ (558.2)
Cash Flow Data:		
Cash flows provided by (used in) operating activities	$ 10.8	$ 29.3
Cash flows provided by (used in) investing activities	$ 1.4	$ (74.9)
Cash flows provided by (used in) financing activities	$ (54.7)	$ 72.4
Other Data:		
Depreciation and intangible amortization	$ 106.9	$ 144.1
Impairment of goodwill and other long-lived assets	$ 22.2	$ 369.2
Margins:		
Rental margin (4)	64.4%	63.3%
Merchandise margin (5)	23.5%	21.1%
Gross margin (6)	54.7%	53.6%
Worldwide Store Data:		
Same-store revenues increase (decrease) (7)		
Rental revenues	(8.6)%	(11.1)%
Merchandise sales	(15.6)%	(17.9)%
Total revenues	(10.6)%	(13.1)%
Company-operated stores at end of year	4,313	5,220
Franchised stores at end of year	1,022	1,300

Total stores at end of year	5,335	6,520

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	Total Number	Avg Sq. Footage (in thousands)	Total Sq. Footage (in thousands)
Real Estate Data at January 2, 2011:			
Domestic			
Company-operated stores	2,760	5.5	15,298
Distribution centers	39	N/A	1,119
Corporate / regional offices	8	N/A	400
International			
Company-operated stores	1,553	3.0	4,622
Distribution centers	7	N/A	169
Corporate / regional offices	5	N/A	65

(1) Operating expenses include non-cash charges to impair goodwill and other long-lived assets totaling $22.2 million and $369.2 million for fiscal years 2010 and 2009, respectively.
(2) Other items, net include the impact of foreign currency exchange gains and losses related primarily to intercompany loans denominated in currencies other than the U.S. dollar. The impact was a loss of $2.9 million in 2010 and $10.4 million in 2009.
(3) During November 2010 we closed the remaining stores in Argentina and recorded a loss on disposal for these operations. During August 2009 we sold Xtra-vision, our Ireland subsidiary. These operations have been classified as discontinued operations.
(4) Rental gross profit (rental revenues less cost of rental revenues) as a percentage of rental revenues.
(5) Merchandise gross profit (merchandise sales less cost of merchandise sold) as a percentage of merchandise sales.
(6) Gross profit as a percentage of total revenues.
(7) A store is included in the same-store revenues calculation after it has been opened and operated by us for more than 52 weeks. An acquired store becomes part of the same-store base in the 53rd week after its acquisition and conversion. The percentage change is computed by comparing total net revenues for same-stores at the end of the applicable reporting period with total net revenues from these same-stores for the comparable period in the prior year. The same-store revenues calculation does not include the impact of foreign exchange or by-mail subscription revenue. The method of calculating same-store revenues varies across the retail industry; therefore, our method of calculating same-store revenues may not be the same as other retailers methods.

Comparison of Fiscal 2010 (52 Weeks) to Fiscal 2009 (52 Weeks)

Revenues decreased $810 million as a result of declining same-store comparables, lower by-mail subscribers and 17.4% fewer company operated stores offset by a favorable foreign currency exchange impact.

Cost of sales decreased $411 million due to the decline in revenues and a favorable foreign currency exchange impact.

Gross profit decreased $400 million due to the reasons stated above, while gross margin percentage improved from 53.6% to 54.7%, primarily from an increase in domestic rental margin offset slightly by international rental and merchandise margin declines, as discussed in their respective segment comparisons.

Operating expenses decreased $623 million due to reduced general and administrative expenses from store closures, other cost savings initiatives and a lower impairment charge in 2010 as compared to the prior year.

Interest expense decreased $17.2 million.

Non-cash interest decreased $10.4 million related to the amortization of debt financing costs; and

Cash interest decreased due to us not recording contractual interest of $31.5 million on our pre-petition debt from the Petition Date through the end of the year offset by $24.1 million in higher average interest rates and higher average debt balances on our long-term debt in 2010.

Loss on extinguishment of debt declined $29.9 million due to the non-recurrence of extinguishment of debt related to the write-off of debt financing costs for our amended revolving facility in the third quarter of fiscal 2009.

The variance in other items, net, is primarily related to foreign currency exchange on intercompany loans denominated in currencies other than U.S. dollars.

We recognized charges of $9.7 million for reorganization items as a result of our filing for bankruptcy protection under Chapter 11. These charges were primarily related to professional fees and DIP Credit Agreement financing fees, partially offset by expense reductions related to rejections of store leases.

Discontinued operations for fiscal 2010 include a $19.2 million loss on the disposal of our Argentina operations. For further discussion, see Note 14 in our consolidated financial statements.

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Segments

We operated our business in two reportable segments: Domestic and International. We identified segments based on how management makes operating decisions, assesses performance and allocates resources.

The Domestic segment was comprised of all U.S. store operations and by-mail subscription service operations in addition to vending kiosks and the digital delivery of movies through blockbuster.com and BLOCKBUSTER On Demand. As of January 2, 2011, we had 3,090 stores operating under the BLOCKBUSTER brand in the United States and its territories, of which 330 stores were operated through our franchisees. We also had 7,769 kiosks operating under the BLOCKBUSTER brand in the United States and its territories at that date.

The International segment was comprised of all non-U.S. store operations including operations in Europe, Latin America, Australia, Canada, Mexico and Asia. As of January 2, 2011, we had 2,245 stores operating under the BLOCKBUSTER brand and other brand names owned by us located in 15 markets outside of the United States. Of these stores, 692 stores were operated through our franchisees. In Canada, Italy, Mexico and Denmark, we also operate freestanding and store-in-store game locations under the GAME RUSH brand. On August 28, 2009, we completed the sale of our subsidiary in Ireland. In November 2010, we closed our operations in Argentina. The results of operations for Ireland and Argentina have been classified as discontinued operations for all periods presented.

The following table is a summary of operating income (loss) by business segment.

	Domestic	International	Unallocated / Corporate	Total
Statement of Operations Data:				
Fiscal Year Ended January 2, 2011				
Revenues	$ 2,125.9	$ 1,114.8	$	$ 3,240.7
Cost of sales	884.8	584.6		1,469.4
Gross profit	1,241.1	530.2		1,771.3
Operating expenses	1,265.6	510.6	123.3	1,899.5
Operating income (loss)	$ (24.5)	$ 19.6	$ (123.3)	$ (128.2)
Fiscal Year Ended January 3, 2010				
Revenues	$ 2,857.7	$ 1,193.4	$	$ 4,051.1
Cost of sales	1,259.9	620.0		1,879.9
Gross profit	1,597.8	573.4		2,171.2
Operating expenses	1,774.9	634.1	113.5	2,522.5
Operating income (loss)	$ (177.1)	$ (60.7)	$ (113.5)	$ (351.3)

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Comparison of Fiscal 2010 (52 Weeks) to Fiscal 2009 (52 Weeks)

Domestic Segment. The following table is a summary of domestic results of operations.

	Fiscal Year Ended January 2, 2011 (52 Weeks)		Fiscal Year Ended January 3, 2010 (52 Weeks)		Increase/(Decrease)	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Dollar	Percent
Revenues:						
Rental revenues:						
Movies	$ 1,349.4	63.6%	$ 1,756.1	61.4%	$ (406.7)	(23.2)%
Games	155.7	7.3%	198.6	6.9%	(42.9)	(21.6)%
Previously rented product (PRP)	310.9	14.6%	464.4	16.3%	(153.5)	(33.1)%
Total rental revenues	1,816.0	85.5%	2,419.1	84.6%	(603.1)	(24.9)%
Merchandise sales:						
Movies	124.2	5.8%	174.2	6.1%	(50.0)	(28.7)%
Games	29.8	1.4%	60.2	2.1%	(30.4)	(50.5)%
General merchandise	142.4	6.7%	187.5	6.6%	(45.1)	(24.1)%
Total merchandise sales	296.4	13.9%	421.9	14.8%	(125.5)	(29.7)%
Royalties and other	13.5	0.6%	16.7	0.6%	(3.2)	(19.2)%
Total revenues	2,125.9	100.0%	2,857.7	100.0%	(731.8)	(25.6)%
Cost of sales:						
Cost of rental revenues	655.9	30.8%	910.3	31.9%	(254.4)	(27.9)%
Cost of merchandise sold	228.9	10.8%	349.6	12.2%	(120.7)	(34.5)%
	884.8	41.6%	1,259.9	44.1%	(375.1)	(29.8)%
Gross profit	1,241.1	58.4%	1,597.8	55.9%	(356.7)	(22.3)%
Operating expenses:						
General and administrative:						
Stores	1,003.8	47.2%	1,187.2	41.6%	(183.4)	(15.4)%
Corporate and field	113.0	5.3%	138.1	4.8%	(25.1)	(18.2)%
Total general and administrative	1,116.8	52.5%	1,325.3	46.4%	(208.5)	(15.7)%
Advertising	50.5	2.4%	67.2	2.4%	(16.7)	(24.9)%
Depreciation and intangible amortization	76.1	3.6%	112.4	3.9%	(36.3)	(32.3)%
Impairment of goodwill and other long-lived assets	22.2	1.1%	270.0	9.4%	(247.8)	(91.8)%
	1,265.6	59.6%	1,774.9	62.1%	(509.3)	(28.7)%
Operating income (loss)	$ (24.5)	(1.2)%	$ (177.1)	(6.2)%	$ 152.6	(86.2)%
Margins:						

Rental margin	$ 1,160.1	63.9%	$ 1,508.8	62.4%	$ (348.7)	(23.1)%
Merchandise margin	$ 67.5	22.8%	$ 72.3	17.1%	$ (4.8)	(6.6)%
Gross margin	$ 1,241.1	58.4%	$ 1,597.8	55.9%	$ (356.7)	(22.3)%

	Fiscal Year Ended January 2, 2011 (52 Weeks)	**Fiscal Year Ended January 3, 2010 (52 Weeks)**
Same-store revenues increase/(decrease)		
Store only:		
Rental revenues	(8.1)%	(12.8)%
Merchandise revenues	(29.9)%	(26.2)%
Total revenues	(12.2)%	(15.6)%
Other:		
Ending by-mail subscriber count	1.2	1.4

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Domestic Rental revenues

Rental revenues decreased mainly as a result of:

- a $146.9 million decrease in same-store base rental revenues driven by a decrease in active store members, partially offset by price increases primarily on catalog inventory in certain stores and implementation of additional daily rate charges (ADR), described below;

- a $92.2 million decrease in by-mail revenues as a result of a 14.3% decline in by-mail subscribers;

- a decline in company-operated stores of 765, or 21.7%, during the last four quarters; and

- a $153.5 million decline in PRP revenues as a result of heavily discounted prices in stores which were being liquidated during the first quarter of 2010, reduced store traffic and lower per-unit prices during 2010, partially offset by an increase in units sold.

On March 1, 2010, we implemented a new policy in our company-operated stores, where ADR is charged for each day a member chooses to keep the rental following the initial rental period. The member will be charged the additional daily rate for up to 10 days, then after, the rental will be converted to an automatic sale. ADR and extended viewing fees were $164.3 million and $51.6 million during 2010 and 2009, respectively.

Domestic Merchandise sales

Merchandise sales decreased mainly as a result of:

- a $46.2 million, or 28.7%, decrease in same-store movie sales as a result of reduced store traffic, price reductions in the current year on select titles and reduced inventory levels;

- a $31.8 million, or 25.8%, decrease in same-store food and beverage sales as a result of reduced inventory levels, reduced store traffic and price reductions;

- a $27.0 million, or 50.5%, decrease in same-store game sales as a result of a significant reduction in games merchandise inventory levels and reduced store traffic;

- a $15.2 million bulk sale of games to a third-party game wholesaler during 2009, as opposed to an $12.8 million bulk sale of games to a third party wholesaler during 2010; and

- a decline in company-operated stores discussed above;

Domestic Cost of sales

Rental cost of goods sold decreased due to:

- reduced estimated costs for our by-mail offering of $60.8 million due to reduced product purchases and lower shipping costs, resulting from the decline in by-mail subscribers as well as fewer free in-store exchanges for Total Access customers;
- a decrease in sales discussed above; and
- a reduction in PRP cost of goods sold due to lower inventory carrying values and reduced sales mentioned above.

Merchandise cost of goods sold decreased $120.7 million due to the decline in sales and company-operated stores mentioned above and a $16.7 million obsolescence adjustment in the first quarter of 2009 for price reductions related to the bulk sale of games mentioned above offset slightly by an increase in consignment cost of sales.

Domestic Gross profit

Rental gross margin increased from 62.4% to 63.9% due to lower product buys as a result of our managing the business to preserve liquidity during the majority of the year.

Merchandise gross margin increased from 17.1% to 22.8% due to the $8.9 million gain on bulk sale of games to a third party in 2010, versus the $14.0 million net loss on the bulk sale of games to a third party in 2009.

Domestic Operating expenses

Store general and administrative expense decreased $183.4 million mainly due to our focus on cost-savings measures, which included closing less profitable stores, reducing store labor hours and renegotiating leases.

Corporate and field general and administrative expense, which includes expenses incurred at the field and regional levels for store operations along with our by-mail offering, decreased $25.1 million primarily due to our cost-savings measures.

During 2010 we incurred $48.9 million in store closure expenses, excluding depreciation and costs included in Reorganization items, net . We closed 771 domestic locations in 2010. Our store closure program has continued into 2011 with the closure of 121 domestic stores in January and February, for which we have recorded over $15.3 million in store closure expenses, excluding depreciation and costs classified as Reorganization items, net, in the first eight weeks of fiscal 2011 in addition to the $48.9 million noted above.

Advertising expense decreased $16.7 million as a result of decreased general advertising in the second and third quarters of 2010, and a $4.8 million decrease in by-mail advertising, partially offset by television advertising during the fourth quarter of 2010 of $17.0 million.

Impairment of goodwill and other long-lived assets had the single largest impact on our operating expense decrease over prior year, with a 2010 impairment charge of $22.2 million compared to a $270.0 million impairment charge in 2009. For further discussion, see Note 5 to our consolidated financial statements.

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International Segment. The following table is a summary of international results from our continuing operations.

	Fiscal Year Ended January 2, 2011 (52 Weeks)		Fiscal Year Ended January 3, 2010 (52 Weeks)		Increase/(Decrease)	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Dollar	Percent
Revenues:						
Rental revenues:						
Movies	$ 460.3	41.3%	$ 506.9	42.4%	$ (46.6)	(9.2)%
Games	51.4	4.6%	51.5	4.3%	(0.1)	(0.2)%
PRP	102.5	9.2%	102.1	8.6%	0.4	0.4%
Total rental revenues	614.2	55.1%	660.5	55.3%	(46.3)	(7.0)%
Merchandise sales:						
Movies	139.5	12.5%	139.6	11.7%	(0.1)	(0.1)%
Games	254.8	22.9%	282.3	23.7%	(27.5)	(9.7)%
General merchandise	100.3	9.0%	107.5	9.0%	(7.2)	(6.7)%
Total merchandise sales	494.6	44.4%	529.4	44.4%	(34.8)	(6.6)%
Royalties and other	6.0	0.5%	3.5	0.3%	2.5	71.4%
Total revenues	1,114.8	100.0%	1,193.4	100.0%	(78.6)	(6.6)%
Cost of sales:						
Cost of rental revenues	208.5	18.7%	219.1	18.4%	(10.6)	(4.8)%
Cost of merchandise sold	376.1	33.7%	400.9	33.6%	(24.8)	(6.2)%
	584.6	52.4%	620.0	52.0%	(35.4)	(5.7)%
Gross profit	530.2	47.6%	573.4	48.0%	(43.2)	(7.5)%
Operating expenses:						
General and administrative	466.1	41.8%	485.0	40.6%	(18.9)	(3.9)%
Advertising	22.6	2.0%	24.0	2.0%	(1.4)	(5.8)%
Depreciation and intangible amortization	21.9	2.0%	25.9	2.2%	(4.0)	(15.4)%
Impairment of goodwill and long-lived assets		0.0%	99.2	8.3%	(99.2)	N/A
	510.6	45.8%	634.1	53.1%	(123.5)	(19.5)%
Operating income (loss)	$ 19.6	1.8%	$ (60.7)	(5.1)%	$ 80.3	(132.3)%
Margins:						
Rental margin	$ 405.7	66.1%	$ 441.4	66.8%	$ (35.7)	(8.1)%
Merchandise margin	$ 118.5	24.0%	$ 128.5	24.3%	$ (10.0)	(7.8)%
Gross margin	$ 530.2	47.6%	$ 573.4	48.0%	$ (43.2)	(7.5)%

	Fiscal Year Ended January 2, 2011	Fiscal Year Ended January 3, 2010

	(52 Weeks)	(52 Weeks)
Same-store revenues increase/(decrease) (1)		
Rental revenues	(9.8)%	(5.0)%
Merchandise revenues	(5.3)%	(9.4)%
Total revenues	(7.8)%	(7.0)%

(1) Changes in international same-store revenues do not include the impact of foreign currency exchange.

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International Rental revenues

Rental revenues decreased primarily due to:

- a same-store movie rental decrease of 11.7%, with Canada and the United Kingdom contributing the majority of the decrease, driven by reduced traffic, slightly offset by an increase in same-store movie rentals in Mexico as a result of reduced pricing which drove a higher volume of transactions;
- a decline in company-operated stores of 142, or 8.4%, during the last four quarters; and
- a $15.6 million decrease in ADR and extended viewing fees, primarily due to the reduced traffic discussed above;
- offset by a favorable foreign currency exchange impact of $25.7 million, with Canada contributing the majority of the impact.

ADR and extended viewing fees were $69.5 million and $85.1 million during 2010 and 2009, respectively.

International Merchandise sales

Game sales, including sales of new and traded games software, hardware consoles and accessories decreased in total due to:

- a same-store sales decrease of 7.1%, with decreased sales in all major markets except Mexico due reduced store traffic and lower per-unit prices; and
- the reduced store count discussed above.

Food and beverage sales decreased primarily due to same-store sales decrease of 10.6%, with the majority of the negative impact from Canada and the United Kingdom due to the reduced store traffic and reduced store count discussed above.

We experienced an unfavorable foreign currency exchange impact of $4.1 million, with Canada and Mexico offset by the United Kingdom and Italy contributing to the majority of the impact.

International Cost of sales

Total cost of sales declined primarily due to the decrease in sales discussed above.

We experienced a favorable foreign currency exchange impact of $10.2 million, with Canada contributing to the majority of the impact.

International Gross margin

Rental margin and merchandise gross margin declined primarily due to the decreases in revenues offset by the foreign currency exchange impacts discussed above.

International Operating expenses

Operating expenses decreased primarily due to:

- a $19.4 million or 8.0% decrease in compensation expense due to a reduction in head count, excluding the impact of foreign currency exchange;
- a $10.7 million or 6.0% decrease in occupancy expense driven by our cost-savings measures, excluding the impact of foreign currency exchange;
- a $1.9 million or 7.9% decrease in advertising spend; and
- an unfavorable foreign currency exchange impact of $16.4 million.

We incurred a $99.2 million charge for the impairment of goodwill and other long-lived assets in 2009. For further discussion, see Note 5 to our consolidated financial statements.

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Unallocated Corporate. The following table is a summary of corporate operating expenses that are not allocated to either business segment.

	Fiscal Year Ended		Increase/(Decrease)	
	January 2, 2011 (52 Weeks)	January 3, 2010 (52 Weeks)	Dollar	Percent
General and administrative	$ 114.4	$ 107.7	$ 6.7	6.2%
Depreciation and intangible amortization	8.9	5.8	3.1	53.4%
Operating expenses	$ 123.3	$ 113.5	$ 9.8	8.6%

Operating expenses increased primarily due to:

- an increase in general and administrative expense due to:
  - a $9.6 million increase in professional fees due primarily to $19.7 million in professional fees related to our recapitalization activities partially offset by our cost-savings measures; and
  - the settlement of a $12.6 million future liability for $5.0 million, which resulted in a $7.6 million release of liabilities in 2009;
  - offset by a $4.7 million decrease in corporate compensation expense, driven by a reduction in head count and reduced stock compensation expense of $5.3 million offset slightly by non-store personnel severance in the first quarter; and
  - a reduction in other general and administrative expenses due to our continued cost-savings measures.

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Liquidity and Capital Resources

General

We generated cash from operations predominantly from the rental and retail sale of movies and games, and most of our revenue is received in cash and cash equivalents. Working capital requirements, including rental library purchases and normal capital expenditures, were generally funded with cash from operations.

We incurred a net loss from operations for the year ended January 2, 2011 and have a stockholders deficit as of January 2, 2011. In addition, the increasingly competitive industry conditions under which we have operated have negatively impacted our results of operations and cash flows.

Capital Structure

The following table sets forth the carrying values of our long-term debt and capital lease obligations:

	January 2, 2011	January 3, 2010
Current portion		
DIP Credit Agreement, interest rate of 10.5% at October 3, 2010	$	$
Senior Secured Notes, interest rate of 11.75%	$	$ 101.6
Current portion of capital lease obligations	0.6	6.1
	0.6	107.7
Non-current portion		
Senior Secured Notes, interest rate of 11.75%		536.0
Senior Subordinated Notes, interest rate of 9.0%		300.0
Total long-term debt, less current portion		836.0
Capital lease obligations, less current portion	0.1	19.9
	0.1	855.9
Liabilities subject to compromise		
Senior Secured Notes, interest rate of 11.75%	600.7	
Senior Subordinated Notes, interest rate of 9.0%	300.0	
Capital lease obligations	14.4	
	915.2	
Total	$ 915.9	$ 963.6

On August 27, 2009, we entered into Amendment No. 2 with Viacom Inc. (Viacom) to the Amended and Restated Initial Public Offering and Split-Off Agreement dated as of June 18, 2004 (the IPO and Split-Off Agreement). In connection with a reduction in Viacom s exposure to lease obligations and pursuant to the terms of the IPO and Split-Off Agreement, the face amounts of the letters of credit we are required to provide for the benefit of Viacom, which are collateralized at 105% of the face amounts, were reduced from $75 million to approximately $25 million. This reduction resulted in a net liquidity benefit of $34 million after negotiated payments by us to certain landlords related to renegotiation or termination of certain lease agreements.

On January 5, 2010, we provided notice to Citigroup, Wachovia and JP Morgan Chase Bank N.A. (the Banks) to cancel certain letters of credit maintained by us with the Banks for the benefit of Viacom, as required by the IPO and Split-Off Agreement. Pursuant to the cancellation notices, the face amounts of the letters of credit, which are collateralized at 105% of the face amounts, were reduced to $0, as a result of us having satisfied or eliminated all of the obligations and contingencies underlying the letters of credit. Viacom has provided us and the Banks

with its consent to cancellation of the letters of credit.

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Senior Secured Notes

We completed the sale of $675 million aggregate principal amount of our 11.75% Senior Secured Notes on October 1, 2009.

We used substantially all of the net proceeds of the Notes to repay all indebtedness outstanding under our revolving credit facility, Term Loan B and our Canadian credit facility, as discussed below, as well as to fund fees and expenses of the transaction. We used the remaining net proceeds for general corporate purposes.

The following table reflects the net proceeds from the funding of the Notes:

Proceeds from Senior Secured Notes (1)	$ 634.5
Repayment of Amended Revolver (2)	(251.6)
Repayment of Term B Loan Facility (2)	(302.3)
Repayment of Canadian Credit Facility (2)	(24.0)
Payment of fees on Senior Secured Notes (3)	(19.8)
Net proceeds from funding	$ 36.8

(1) Reflects $675.0 million aggregate principal amount net of $40.5 million original issue discount.
(2) Includes payments of principal and accrued interest.
(3) Includes only those fees paid directly to lenders as part of the funding transaction. Other fees have been incurred for financing costs.

The Notes bore an interest at a rate of 11.75% and matured on October 1, 2014. Interest on the Notes was payable on January 1, April 1, July 1 and October 1 of each year through maturity, beginning on January 1, 2010.

The Notes were issued pursuant to an Indenture, dated as of October 1, 2009 (the Indenture), between Blockbuster Inc., the Guarantors and U.S. Bank National Association, as trustee. There were no maintenance covenants with respect to our financial performance. However, the Indenture did contain transaction-based restrictive covenants, including but not limited to, limitations on us and our restricted subsidiaries to: sell certain assets; create liens on certain assets to secure debt; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and enter into sale and leaseback transactions. Additionally, there were certain additional covenants, limitations and conditions based upon ratings given by Standard & Poor s Rating Services and Moody s Investors Service, Inc.

The Indenture contained customary events of default. If an event of default occurred and continued, the trustee or holders of at least 25% in principal amount of the outstanding Notes could then declare the principal of premium, if any, and accrued and unpaid interest, if any, on all the Notes to be due and payable immediately. Certain events of bankruptcy or insolvency were events of default which could result in the Notes being due and payable immediately upon the occurrence of such events of default.

The Notes were not registered under the Securities Act and, unless so registered, may not be offered or sold in the United States absent an applicable exemption from registration requirements.

In connection with the sale of the Notes, on October 1, 2009, we and the Guarantors entered into a Collateral Agreement (the Collateral Agreement) with U.S. Bank National Association, as collateral agent. Pursuant to the Collateral Agreement, the Notes and the guarantees are secured by a first-priority lien, subject to permitted liens, on substantially all of our assets and the Guarantors assets securing our credit agreement immediately prior to the issue date of the Notes, including, but not limited to, all accounts receivable, plant, property and equipment (but excluding certain owned and all leased real property), inventory, intangible assets and the capital stock of any domestic subsidiary and certain foreign subsidiaries held by us of any Guarantor (but limited to 65% of the voting stock of any such first-tier foreign subsidiary).

As of December 30, 2009, an event which, with notice or the lapse of time or both, would have constituted an event of default under the Indenture, arose as a result of us failing to comply with the Collateral Agreement, which required us to cause certain deposit accounts to be subject to an account control agreement no later than December 30, 2009. To cure this matter, we have caused certain deposit accounts to be subject to an account control agreement as of January 27, 2010. As of January 3, 2010, we were in compliance with all other covenants under the Indenture.

Certain of the lenders under the Senior Secured Notes are also parties to the DIP Credit Agreement, which is discussed above under Filing Under Chapter 11 of the U.S. Bankruptcy Code DIP Credit Agreement, and below.

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Forbearance Agreement

On July 1, 2010, the Company and the Guarantors under the Indenture entered into a forbearance agreement (the Forbearance Agreement) with holders who represented that they held greater than 70% of the outstanding principal amount of the Notes (the Forbearing Holders). Based on the terms of the Forbearance Agreement, the Forbearing Holders agreed to, among other things, forbear from taking any action to enforce certain of their rights or remedies under the Indenture with respect to the Company s failure on July 1, 2010, (i) to redeem a portion of the Notes pursuant to the Indenture and the Notes (the Amortization Payment Default) and (ii) to pay interest on the Notes (the Interest Payment Default). The Forbearance Agreement was effective until the earliest of (a) August 13, 2010, (b) the occurrence or existence of any Default or Event of Default (each as defined in the Indenture) other than the Amortization Payment Default or Interest Payment Default, and (c) the occurrence of certain other events as described in the Forbearance Agreement.

The Forbearance Agreement contained covenants by the Company to, among other things: (i) retain and continue to employ a chief restructuring officer to assist with all restructuring initiatives of the Company, and (ii) provide to the Trustee and to counsel and the financial advisors to the Forbearing Holders (a) a 13-week treasury cash flow forecast no later than Thursday of each week, (b) executive summary reports no later than Thursday of each week, and (c) period financial reports each month no later than twenty-one days after the end of the prior month. The Company also agreed to weekly telephonic and written communication with counsel and the financial advisors to the Forbearing Holders to review, among other things, the weekly reports and to provide updates on strategic processes.

Extended Forbearance Agreement

On August 12, 2010, the Company and the Guarantors under the Indenture and the Forbearing Holders entered into a revised and extended forbearance agreement (the Extended Forbearance Agreement) containing identical covenants and on the same terms and conditions as the Forbearance Agreement. The Extended Forbearance Agreement was effective until the earliest of (a) September 30, 2010, (b) the occurrence or existence of any Default or Event of Default (each as defined in the Indenture) other than the Specified Defaults, and (c) the occurrence of certain other events as described in the Extended Forbearance Agreement. The Extended Forbearance Agreement was terminated upon the Bankruptcy Filing.

Termination of DIP Credit Agreement

On February 25, 2011 (the Termination Date), the Company received a Notice of Event of Default and Termination Letter (the Termination Letter) pursuant to which the Lenders notified the Company that an Event of Default under the DIP Credit Agreement had occurred and was continuing as of the Termination Date. As a result of the Event of Default, the Lenders directed the Agent, which direction the Agent carried out by execution of the Termination Letter, to (i) terminate the Commitment of the Lenders to make further Revolving Loan Advances, and (ii) declare all Obligations, including all of the Revolving Loans, to be due and payable (the Specified Remedies). As a result of the Specified Remedies, the financing arrangements contemplated by the DIP Credit Agreement were, pursuant to the Termination Letter, terminated (the DIP Termination) and the Loans and all other Obligations became automatically due and payable as of the Termination Date. Demand was made of the Company and each other Credit Party to repay their Obligations to the Agent or any Lender under the Loan Documents. As of the Termination Date, there were no outstanding draws under the DIP Credit Agreement.

On February 25, 2011, the Agent, on behalf of the Requisite Lenders, delivered a Carve-Out Trigger Notice specifying that: (i) as a result of the DIP Termination a Termination Event (under and as defined in the Final DIP Order) has occurred, (ii) the DIP Obligations have been accelerated, and (iii) a $5,000,000 cap on all unpaid fees, disbursements, costs and expenses (subject to certain restrictions) incurred after the first business day following the Termination Date by the Professional Persons has been invoked.

Delivery of the Carve-Out Trigger Notice constituted a roll-up event (a Roll-Up Event) under the Final DIP Order. Under the Final DIP Order, each entity that is both a beneficial holder of the Company s 11.75% Senior Secured Notes due 2014 (the Senior Secured Notes) and a Lender as of the occurrence of a Roll-Up Event (such date, the Roll-Up Date) is entitled to receive all or any portion of such Senior Secured Notes as roll-up notes (the Roll-Up Notes), up to an amount of Roll-Up Notes with an aggregate principal balance equal to the lesser of (i) the total outstanding principal amount of Senior Secured Notes held by such entity on the Roll-Up Date, or (ii) the amount of such Lender s aggregate commitment to make DIP Loans under the DIP Credit Agreement, determined as of the Roll-Up Date, on the basis of the then outstanding commitments and after giving effect to all assignments of commitments under the DIP Credit Agreement and outstanding Revolving DIP Loans made prior to the Roll-Up Date. The aggregate principal amount of such Roll-Up Notes will not exceed $125,000,000. The Roll-Up Notes are secured by the DIP Liens and the DIP Collateral (excluding Avoidance Action Proceeds) retroactive to the Commencement Date and the entire outstanding amount of the obligations under the Roll-Up Notes are allowed Superpriority Claims, as provided in the Final DIP Order, as of any date of calculation in addition to their continuing claims and liens as Senior Secured Notes.

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DIP Credit Agreement

In connection with the Bankruptcy Filing, on September 23, 2010, the Company entered into a Senior Secured, Super-priority Debtor-in-Possession Revolving Credit Agreement (the DIP Credit Agreement) with the Company s subsidiaries signatory thereto (Subsidiary Guarantors), the lenders signatory thereto (the Lenders) and Wilmington Trust FSB, as agent (the Agent). Pursuant to the terms of the DIP Credit Agreement, the Lenders agreed to lend up to $125,000,000 in the form of revolving loan advances, the Subsidiary Guarantors agreed to guarantee the Company s obligations thereunder and the Company and Subsidiary Guarantors agreed to secure their obligations under the loan documents by granting the Agent, for the benefit of the Agent and the Lenders, a first-priority security interest in and lien upon all of the Company s and Subsidiary Guarantors existing and after-acquired personal and real property. The Company had the option to have interest on the loans provided under the DIP Credit Agreement accrue at an index rate (a function of the then -applicable base rate) or the then-applicable LIBOR rate (with a floor of 2.0%), plus a margin of 8.5% and 7.5%, respectively. The DIP Credit Agreement limits, among other things, the Company s and Subsidiary Guarantors ability to (i) incur indebtedness, (ii) incur or create liens, (iii) dispose of assets, (iv) prepay subordinated indebtedness and make other restricted payments, (v) enter into sale and leaseback transactions and (vi) modify the terms of any subordinated indebtedness and certain material contracts of the Company and the Subsidiary Guarantors. In addition to standard obligations, the DIP Credit Agreement provides for (x) a periodic delivery by the Company of its budget that has to be approved by a requisite number of Lenders set forth in the DIP Credit Agreement and (y) specific milestones that the Company must achieve by specific target dates. The Company paid the Agent a customary agency administration fee in connection with the DIP Credit Agreement, and will pay the Lenders an unused amount fee and commitment fee as set forth in the DIP Credit Agreement.

Senior Subordinated Notes

On August 20, 2004, we issued $300.0 million aggregate principal amount of 9% senior subordinated notes due September 1, 2012 (the Senior Subordinated Notes). As of January 3, 2010, $300.0 million of principal was outstanding under the Senior Subordinated Notes. Interest accrues on the Senior Subordinated Notes from August 20, 2004, and is payable on March 1 and September 1 of each year.

On January 4, 2010 and April 1, 2010, we made principal, interest and mandatory redemption premium payments required under the Senior Secured Notes, and on March 1, 2010, we made an interest payment of $13.5 million to the holders of our Senior Subordinated Notes.

However, pursuant to Section 10.03 of the Indenture for the Senior Secured Notes, the Company was prohibited from paying interest on the Senior Subordinated Notes if any Designated Senior Indebtedness (as defined in the Indenture for the Senior Secured Notes) of the Company was not paid in full in cash when due. On July 1, 2010, the Company failed to redeem a portion of Senior Secured Notes or to make its scheduled interest payment on the Senior Secured Notes. As a result, the Company was prohibited from making, and did not make, its scheduled interest payment on the Senior Subordinated Notes on September 1, 2010.

Effect of Bankruptcy Filing on Certain Debt Instruments

The Bankruptcy Filing described above constituted an event of default with respect to both the Senior Secured Notes and the Senior Subordinated Notes (the Debt Documents).

The Debt Documents provide that as a result of the Bankruptcy Filing the principal and interest due thereunder shall be immediately due and payable. The Bankruptcy Filing was a termination event under the Extended Forbearance Agreement discussed above. Any efforts to enforce such payment obligations under the Debt Documents are stayed as a result of the Bankruptcy Filing and the creditors rights of enforcement in respect of the Debt Documents are subject to the applicable provisions of the Bankruptcy Code.

As discussed above, as a result of our default under the DIP Credit Agreement, on February 25, 2011, the Agent, on behalf of the Requisite Lenders, delivered a Carve-Out Trigger Notice specifying that: (i) as a result of the DIP Termination a Termination Event (under and as defined in the Final DIP Order) has occurred, (ii) the DIP Obligations have been accelerated, and (iii) a $5,000,000 cap on all unpaid fees, disbursements, costs and expenses (subject to certain restrictions) incurred after the first business day following the Termination Date by the Professional Persons has been invoked.

Delivery of the Carve-Out Trigger Notice constituted a roll-up event (a Roll-Up Event) under the Final DIP Order. Under the Final DIP Order, each entity that is both a beneficial holder of the Senior Secured Notes and a Lender as of the occurrence of a Roll-Up Event (such date, the Roll-Up Date) is entitled to receive all or any portion of such Senior Secured Notes as roll-up notes (the Roll-Up Notes), up to an amount of Roll-Up Notes with an aggregate principal balance equal to the lesser of (i) the total outstanding principal amount of Senior Secured Notes held by such entity on the Roll-Up Date, or

(ii) the amount of such Lender s aggregate commitment to make DIP Loans under the DIP Credit Agreement, determined as of the Roll-Up Date, on the basis of the then outstanding commitments and after giving effect to all assignments of commitments under the DIP Credit Agreement and outstanding Revolving DIP Loans made prior to the Roll-Up Date. The aggregate principal amount of such Roll-Up Notes will not exceed $125,000,000. The Roll-Up Notes are secured by the DIP Liens and the DIP Collateral (excluding Avoidance Action Proceeds) retroactive to the Commencement Date and the entire outstanding amount of the obligations under the Roll-Up Notes are allowed Superpriority Claims, as provided in the Final DIP Order, as of any date of calculation in addition to their continuing claims and liens as Senior Secured Notes.

Since the Asset Sale proceeds are significantly less than our pre-petition liabilities, holders of the Debt Documents will receive substantially less than payment in full for their claims and our stockholders will receive no value for their shares of our common and preferred stock.

Amended Credit Facility

On August 20, 2004, in connection with our divestiture from Viacom, we entered into a credit agreement with a syndicate of lenders providing for: (i) a five-year $500.0 million revolving credit facility, a portion of which was reserved for issuance of letters of credit to Viacom (the Viacom Letters of Credit); (ii) a five-year $100.0 million term loan A (the Term Loan A); and (iii) a seven-year $550.0 million term loan B (the Term Loan B).

We entered into various amendments and restatements to our credit agreement on November 4, 2005, April 10, 2007 and July 2, 2007. On April 2, 2009, we further amended our credit agreement to include commitments from certain of our lenders and certain new lenders to (a) replace the existing revolving credit facility with a $250.0 million revolving credit facility with a maturity date of September 30, 2010 and (b) amend certain financial and other covenants in our credit facility (the Amended Revolver). Borrowings under the Amended Revolver bore interest at an alternate base rate (with a floor of 4.5%) plus 9% or at LIBOR (with a floor of 3.5%) plus 10%, at our discretion, which interest payments were due and payable monthly. On May 11, 2009, the Amended Revolver was closed and funded.

The following table reflects the net proceeds from the funding of the Amended Revolver and the Canadian Credit Facility:

Proceeds from Canadian Credit Facility (1)	$ 21.4
Payment of fees on Canadian Credit Facility (1)	(0.2)
Proceeds from Amended Revolver	250.0
Payment of pre-amendment revolver balance	(205.0)
Payment of fees on amended credit facility (2)	(24.3)
Net proceeds from funding	$ 41.9

(1) Converted to US Dollars based on the May 11, 2009 exchange rate.
(2) Includes only those fees paid directly to lenders as part of the funding transaction. Other fees have been incurred for financing costs.
In addition, we used $118.3 million of our previous cash balances, cash from operations and net proceeds from the funding of the Amended Revolver to cash-collateralize our letter of credit requirements on May 11, 2009 as required by the Amended Revolver.

Through May 11, 2009, we were required to make prepayments on the credit facilities in an aggregate amount equal to 50% of annual excess cash flow, as defined by our credit agreement. Such payments were due at the end of the first quarter of the following year. In fiscal 2008, we generated excess cash flow, as defined by our credit agreement, and made a prepayment of $25.1 million on April 6, 2009. Additionally, we were required to make prepayments on the credit facilities related to sales of store operations and property and equipment, as defined by our credit agreement. The following table summarizes payment activity regarding the term loan A and B facilities during 2009.

	Fiscal 2009
Scheduled payments	$ 34.6
Sale of store operations and property and equipment	
Excess cash flow (based on prior year cash flow)	25.1

$ 59.7

Concurrently with the closing of the sale of the Senior Secured Notes and the repayment of our revolving credit facility and Term Loan B on October 1, 2009, we entered into a second amendment agreement to our credit agreement (the Amendment), pursuant to which all liens securing the revolving credit facility were released, except for the cash collateral securing outstanding letters of credit. Pursuant to the Amendment, the credit agreement was converted to a letter of credit facility. The letters of credit outstanding under the Amended Revolver remain outstanding, but all financial and substantially all negative covenants in the credit agreement have been eliminated (although the credit agreement continues to have customary covenants, events of default and other provisions applicable to letter of credit facilities of this type). The existing letters of credit thereunder will continue to be secured by cash collateral to the extent such letters of credit remain outstanding.

In connection with the repayment of the Amended Revolver, we wrote off $29.9 million of remaining debt financing costs and we paid the revolving lenders a fee of approximately $1.5 million.

Consolidated Cash Flows

Operating Activities. Net cash flows from operating activities decreased $18.5 million to $10.8 million of cash provided by operating activities in fiscal year 2010 from $29.3 million of cash provided by operating activities in 2009.

- Net income adjusted for non-cash items decreased $244.7 million, primarily driven by a decline in gross profit partially offset by a decrease in selling, general and administrative expenses.

- Rental library purchases decreased $130.5 million to $369.7 million used in fiscal year 2010 from $500.2 million used in fiscal year 2009.

- Other changes in operating assets and liabilities in the year ended January 3, 2010 compared to the same period in 2008 resulted primarily from continued aging of certain pre-petition liabilities classified as Liabilities subject to compromise.

Investing Activities. Net cash flows from investing activities increased $76.3 million to $1.4 million of cash provided by investing activities in fiscal year 2010 from $74.9 million used in investing activities in 2009, due to changes in restricted cash related primarily to our cash-collateralization of letters of credit and decreased capital expenditures, offset by the non-recurrence of proceeds of store operations in 2009.

Financing Activities. Net cash flows from financing activities decreased $127.1 million to $54.7 million of cash used in financing activities in 2010 from $72.4 million of cash provided by financing activities in 2009.

General Economic Trends, Quarterly Results of Operations and Seasonality

Our business was affected by general economic and other consumer trends, and was subject to fluctuations in future operating results due to a variety of factors, many of which were outside of our control. These fluctuations may have been caused by, among other things, a distinct seasonal pattern to the home video and video games business, particularly weaker business in May, due in part to improved weather, and in September and October, due in part to the start of school and the introduction of new television programs, and other factors disclosed under Risk Factors in previously filed Forms 10-K and other SEC filings. The month of December has historically been our highest revenue month, while January and February also contribute higher revenues.

Critical Accounting Estimates

The preparation of our consolidated financial statements, in conformity with accounting principles generally accepted in the United States, requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to the useful lives and residual values surrounding our rental library, estimated accruals related to revenue-sharing titles subject to performance guarantees, merchandise inventory reserves, revenues generated by customer programs and incentives, useful lives of property and equipment, income taxes, impairment of our long-lived assets and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

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We believe the following accounting policies require more significant judgments and estimates and that changes in these estimates or the use of different estimates could have a material impact on our results of operations or financial position.

Rental Library Amortization

We have established amortization policies with respect to our rental library that most closely allow for the matching of product costs with the related revenues generated by the utilization of our rental library product. These policies require that we make significant estimates based upon our experience as to the ultimate revenue and the timing of the revenue to be generated by our rental library product. We utilize the accelerated method of amortization because it approximates the pattern of demand for the product, which is generally high when the product is initially released for rental by the studios and declines over time. In establishing residual values for our rental library product, we consider the sales prices and volume of our previously rented product and other used product.

Based upon these estimates and our current customer propositions and offerings, we currently amortize the cost of our in-store and online rental library, which includes movies and games, over periods ranging from six months to twenty-four months to estimated residual values ranging from $0 to $8 per unit, according to the product category.

We also review the carrying value of our rental library periodically to ensure that estimated future cash flows exceed the carrying value. We record adjustments to the value of previously rented product primarily for estimated obsolete or excess product based upon changes in our original assumptions about future demand and market conditions. If future demand or actual market conditions are less favorable than those estimated by management, additional adjustments, including adjustments to rental amortization periods or residual values, may be required. We continually evaluate the estimates surrounding the useful lives and residual values used in amortizing our rental library. Changes to these estimates resulting from changes in consumer demand, changes in our customer propositions or the price or availability of retail video product may materially impact the carrying value of our rental library and our rental margins.

Merchandise Inventory

Our merchandise inventory, which includes new and traded movies and games and other general merchandise, including confections, is stated at the lower of cost or market. We record adjustments to the value of inventory primarily for estimated obsolete or excess inventory equal to the difference between the carrying value of inventory and the estimated market value based upon assumptions about future demand and market conditions. If future demand or actual market conditions are less favorable than those projected by management, additional inventory adjustments may be required. Our estimate for inventory shrinkage is based on the actual historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions. These estimates are compared with actual results as physical inventory counts are taken and reconciled to the general ledger. DVD and video game products are susceptible to shrinkage due to their portability and popularity.

Income Taxes

In determining net income for financial statement purposes, we make certain estimates and judgments in the calculation of tax expense and the resulting tax liabilities and in the recoverability of deferred tax assets that arise from temporary differences between the tax and financial statement recognition of revenue and expense.

We record deferred tax assets and liabilities for future income tax consequences that are attributable to differences between financial statement carrying amounts of assets and liabilities and their income tax bases. We base the measurement of deferred tax assets and liabilities on enacted tax rates that we expect will apply to taxable income in the year when we expect to settle or recover those temporary differences. We recognize the effect on deferred tax assets and liabilities of any change in income tax rates in the period that includes the enactment date.

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. We recognize interest and penalties relating to income taxes as components of income tax expense. See Note 10 to our consolidated financial statements.

We record valuation allowances to reduce our deferred tax assets to amounts that are more likely than not to be realized. Based on negative industry trends and intense competition, our actual and anticipated financial performance has been significantly worse than we originally projected for several fiscal periods. Accordingly, we recorded a valuation allowance against our deferred tax assets

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in the United States and certain foreign jurisdictions. Until we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets in certain markets, income tax benefits associated with current period losses will not be recognized.

Impairment of Long-Lived Assets

Long-lived assets including property and equipment and amortized intangible assets are evaluated and reviewed for impairment during the fourth quarter of each year and whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the undiscounted future cash flows expected to be generated by the asset or asset group. When this comparison indicates that an impairment exists, the impairment recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. The inputs used to calculate the fair value of property and equipment, net included estimated amortized replacement cost and projected cash flows discounted at a risk-adjusted rate of return that we estimated would be used by a market participant in valuing these assets.

The determination of whether or not assets are impaired and the corresponding useful lives of these long-lived assets require significant judgment. The development of future cash flow projections requires management estimates related to forecasted sales and expected costs trends. To the extent that changes in business conditions occur or other management decisions are made that result in adjusted management projections or alternative use of the assets, impairment losses or accelerated depreciation may occur in future periods.

As discussed in Note 5 to the consolidated financial statements, we performed our annual impairment test during the fourth quarter of fiscal 2010. The test indicated that the long-lived assets associated with our domestic reporting unit were impaired. Therefore, we recognized a $22.2 million impairment charge during the fourth quarter of 2010.

Market Risk

We are exposed to market risk arising from changes in foreign exchange rates, and we monitor these risks throughout the normal course of business. Significant fluctuations in foreign exchange rates could cause us to adjust our financing and operating strategies to mitigate these risks. At January 2, 2011 and January 3, 2010, we did not have any foreign exchange hedging instruments in place.

Interest Rate Risk

As of January 2, 2011, our DIP Credit Agreement accrued interest at a variable rate. However, there were no unpaid principal balances on this debt on January 2, 2011, and no amounts were drawn between that date and the termination of the DIP Credit Agreement on February 11, 2011.

Foreign Exchange Risk

Operating in international markets involves exposure to movements in currency exchange rates. Currency exchange rate movements typically also reflect economic growth, inflation, interest rates, government actions and other factors. As currency exchange rates fluctuate, translation of the statements of operations of our international businesses into U.S. dollars may affect year-over-year comparability and could cause us to adjust our financing and operating strategies. Revenues and operating income would have decreased by $29.9 million and $0.0 million, respectively, for 2010 if foreign exchange rates in 2010 had been consistent with 2009.

Our operations outside the United States, mainly in Europe and Canada, constituted 34% and 30% of our total revenues in fiscal years 2010 and 2009, respectively. Consequently, we have foreign exchange rate exposure to movements in exchange rates primarily for the British Pound, the Euro and the Canadian Dollar.

Recent Accounting Pronouncements

See Note 1 to the consolidated financial statements for a discussion of recently issued accounting pronouncements.

Off-Balance Sheet Arrangements

None.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

The response to this item is included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk.

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Item 8. ***Financial Statements and Supplementary Data***

BLOCKBUSTER INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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All supplementary financial statement schedules have been omitted

because the information required to be set forth therein is either not applicable

or is shown in the consolidated financial statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and

Stockholders of Blockbuster Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Blockbuster Inc. and its subsidiaries at January 2, 2011 and January 3, 2010, and the results of their operations and their cash flows for each of the two years in the period ended January 2, 2011 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, Blockbuster Inc. and certain of its U.S. subsidiaries voluntarily filed for Chapter 11 bankruptcy protection on September 23, 2010. This action was taken primarily as a result of liquidity issues as discussed in Note 1 to the consolidated financial statements. As a result of the bankruptcy proceedings, substantially all of the Company s assets were acquired by a third party on April 26, 2011. These actions and the other matters discussed in Notes 1 and 2 raise substantial doubt about the Company s ability to continue as a going concern. Management s plan in regard to this matter is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Dallas, Texas

July 12, 2011

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BLOCKBUSTER INC.

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	Fiscal Year Ended	
	January 2, 2011	**January 3, 2010**
Revenues:		
Base rental revenues	$ 2,016.8	$ 2,513.1
Previously rented product (PRP) revenues	413.4	566.5
Total rental revenues	2,430.2	3,079.6
Merchandise sales	791.0	951.3
Other revenues	19.5	20.2
	3,240.7	4,051.1
Cost of sales:		
Cost of rental revenues	864.4	1,129.4
Cost of merchandise sold	605.0	750.5
	1,469.4	1,879.9
Gross profit	1,771.3	2,171.2
Operating expenses:		
General and administrative	1,697.3	1,918.0
Advertising	73.1	91.2
Depreciation and intangible amortization	106.9	144.1
Impairment of goodwill and other long-lived assets	22.2	369.2
	1,899.5	2,522.5
Operating income (loss)	(128.2)	(351.3)
Interest expense	(94.3)	(111.5)
Loss on extinguishment of debt		(29.9)
Interest income	0.8	1.3
Other items, net	(2.9)	(10.4)
Income (loss) from continuing operations before reorganization items and income taxes	(224.6)	(501.8)
Reorganization items, net	(9.7)	
Benefit (provision) for income taxes	(7.4)	(11.8)
Income (loss) from continuing operations	(241.7)	(513.6)
Income (loss) from discontinued operations, net of tax	(26.3)	(44.6)
Net income (loss)	(268.0)	(558.2)
Preferred stock dividends	(3.6)	(11.1)

Net income (loss) applicable to common stockholders	$ (271.6)	$ (569.3)
Net income (loss) per common share:		
Basic and diluted		
Continuing operations	$ (1.14)	$ (2.70)
Discontinued operations	(0.12)	(0.23)
Net income (loss)	$ (1.26)	$ (2.93)
Weighted average shares outstanding:		
Basic and diluted	215.3	194.1

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

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BLOCKBUSTER INC.

(DEBTOR-IN-POSSESSION)

CONSOLIDATED BALANCE SHEETS

(In millions, except per share amounts)

	January 2, 2011	January 3, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 146.5	$ 188.7
Receivables, less allowance of $6.0 for 2010 and 2009	60.7	79.4
Merchandise inventories	242.4	298.5
Rental library, net	269.1	340.7
Deferred income taxes	15.1	13.6
Prepaid and other current assets	118.3	139.1
Total current assets	852.1	1,060.0
Property and equipment, net	165.5	249.4
Deferred income taxes	84.9	114.6
Intangibles, net	5.2	7.7
Restricted cash	34.7	58.5
Other assets	41.1	48.1
	$ 1,183.5	$ 1,538.3
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 223.0	$ 300.8
Accrued expenses	252.0	407.7
Current portion of long-term debt		101.6
Current portion of capital lease obligations	0.6	6.1
Deferred income taxes	86.7	118.6
Total current liabilities	562.3	934.8
Long-term debt, less current portion		836.0
Capital lease obligations, less current portion	0.1	19.9
Other liabilities	25.9	61.9
Liabilities subject to compromise (Note 2)	1,147.2	
	1,735.5	1,852.6
Commitments and contingencies (Note 12)		
Stockholders equity (deficit):		
Preferred stock, par value $0.01 per share; 100 shares authorized; 0.030 and 0.146 shares issued and outstanding for 2010 and 2009, respectively, with a liquidation preference of $1,000 per share	30.3	145.9
Class A common stock, par value $0.01 per share; 400 shares authorized; 147.4 and 122.4 shares issued and outstanding for 2010 and 2009	1.5	1.3
Class B common stock, par value $0.01 per share; 500 shares authorized; 72.0 shares issued and outstanding for 2010 and 2009	0.7	0.7
Additional paid-in capital	5,497.6	5,377.0
Accumulated deficit	(6,054.9)	(5,786.9)

Accumulated other comprehensive loss	(27.2)	(52.3)
Total stockholders equity (deficit)	(552.0)	(314.3)
	$ 1,183.5	$ 1,538.3

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

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BLOCKBUSTER INC.

(DEBTOR-IN-POSSESSION)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE LOSS (In millions)

	Fiscal Year Ended			
	January 2, 2011		January 3, 2010	
	Shares	Amount	Shares	Amount
Series A convertible preferred stock:				
Balance, beginning of year	0.15	$ 145.9	0.15	$ 150.0
Conversion of Series A convertible preferred stock	(0.12)	(115.6)	(0.00)	(4.1)
Balance, end of year	0.03	$ 30.3	0.15	$ 145.9
Class A common stock:				
Balance, beginning of year	122.4	$ 1.3	120.7	$ 1.2
Issuance of Class A common stock, exercise of stock options and vesting of restricted shares, net of cancellations	25.0	0.2	1.7	0.1
Balance, end of year	147.4	$ 1.5	122.4	$ 1.3
Class B common stock:				
Balance, beginning of year	72.0	$ 0.7	72.0	$ 0.7
Balance, end of year	72.0	$ 0.7	72.0	$ 0.7
Additional paid-in capital:				
Balance, beginning of year		$ 5,377.0		$ 5,378.4
Issuance of Class A common stock		0.1		0.6
Conversion of Series A convertible preferred stock		123.0		4.1
Exercise/vesting and expense of share-based compensation, net of tax benefit		1.1		5.0
Cash dividends on preferred stock				(2.8)
Accumulated dividends on preferred stock		(3.6)		(8.3)
Balance, end of year		$ 5,497.6		$ 5,377.0
Accumulated other comprehensive loss:				
Balance, beginning of year		$ (52.3)		$ (87.3)
Other comprehensive income (loss):				
Foreign currency translation, net of taxes		25.1		35.0
Balance, end of year		$ (27.2)		$ (52.3)
Accumulated deficit:				
Balance, beginning of year		$ (5,786.9)		$ (5,228.7)
Net income (loss)		(268.0)		(558.2)
Balance, end of year		$ (6,054.9)		$ (5,786.9)

Total stockholders equity (deficit)	$ (552.0)	$ (314.3)
Comprehensive income (loss):		
Net income (loss)	$ (268.0)	$ (558.2)
Other comprehensive income (loss):		
Foreign currency translation, net of taxes	25.1	