

BLOCKBUSTER INC  
Form S-4/A  
July 29, 2004  
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As filed with the Securities and Exchange Commission on July 28, 2004

Registration No. 333-116617

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**AMENDMENT NO. 1**

**TO**

**FORM S-4**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**BLOCKBUSTER INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**7841**  
(Primary Standard Industrial  
Classification Code Number)

**52-1655102**  
(I.R.S. Employer  
Identification Number)

**1201 Elm Street**

**Dallas, Texas 75270**

**(214) 854-3000**

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

**Edward B. Stead**

**Executive Vice President and General Counsel**

**Blockbuster Inc.**

**1201 Elm Street**

**Dallas, Texas 75270**

**(214) 854-3000**

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

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Copies to:

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

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

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

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

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of securities to be registered</b>	<b>Amount to be registered (1)</b>	<b>Proposed maximum offering price per unit</b>	<b>Proposed maximum aggregate offering price (2)</b>	<b>Amount of registration fee (3)</b>
Class A common stock, par value \$0.01 per share	(4)	N/A		
Class B common stock, par value \$0.01 per share	(4)	N/A		
<b>Total</b>	<b>144,000,000</b>	<b>N/A</b>	<b>\$ 2,210,400,000</b>	<b>\$ 280,057.68</b>

- (1) Represents the maximum number of shares of class A common stock, par value \$0.01 per share (the Blockbuster class A common stock), of Blockbuster Inc., a Delaware corporation (Blockbuster), and shares of class B common stock, par value \$0.01 per share (the Blockbuster class B common stock), of Blockbuster offered in exchange for shares of class A common stock, par value \$0.01 per share, and class B common stock, par value \$0.01 per share, of Viacom Inc., a Delaware corporation (Viacom), as described in the Prospectus-Offer to Exchange filed as part of this Registration Statement.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rules 457(f)(1) and (3) and Rule 457(c) of the Securities Act of 1933, as amended (the Securities Act), based on \$15.35, the average of the high and low sales prices of Blockbuster class A common stock as reported by the New York Stock Exchange on June 14, 2004. Because there is no trading market for Blockbuster class B common stock, the Blockbuster class A common stock is believed to be the most appropriate measure of the value of the securities to be exchanged in this exchange offer for purposes of calculating the filing fee.
- (3) Computed in accordance with Rule 457(f) under the Securities Act to be \$280,057.68, which is equal to 0.0001267 multiplied by the proposed maximum aggregate offering price of \$2,210,400,000.00. The filing fee of \$280,057.68 was previously paid by Blockbuster in connection with the initial filing of this Registration Statement on June 18, 2004.
- (4) Registered hereunder are an indeterminable number of shares of Blockbuster class A common stock and an indeterminable number of shares of Blockbuster class B common stock, in an amount not to exceed 144,000,000 shares of Blockbuster common stock in the aggregate. The amount of shares of Blockbuster class A common stock and Blockbuster class B common stock to be registered hereunder will be determined prior to the declaration of the effectiveness of this Registration Statement by the Securities and Exchange Commission.

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

pursuant to said Section 8(a), may determine.

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

**PRELIMINARY PROSPECTUS-OFFER TO EXCHANGE, DATED JULY 28, 2004**

**SUBJECT TO COMPLETION**

**VIACOM INC.**

Offer to Exchange

[ ] Shares of Class A Common Stock

and

[ ] Shares of Class B Common Stock

of

**BLOCKBUSTER INC.**

which are owned by Viacom Inc.

for

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

of

**VIACOM INC.**

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

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

Viacom's obligation to exchange shares of Blockbuster class A and class B common stock for shares of Viacom class A or class B common stock is subject to the conditions listed under "The Exchange Offer - Conditions for Completion of this Exchange Offer" beginning on page 64. Viacom's class A and class B common stock are listed on the New York Stock Exchange under the symbols "VIA" and "VIAB," respectively, and

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Blockbuster's class A common stock is listed on the New York Stock Exchange under the symbol BBI. Blockbuster intends to apply for the listing of shares of its class B common stock on the New York Stock Exchange. There is no historical trading market for Blockbuster's class B common stock because Viacom has owned all of the issued and outstanding shares of Blockbuster class B common stock since their issuance. Shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share.

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

See Risk Factors beginning on page 30 for a discussion of certain factors that you should consider in connection with this exchange offer.

The co-dealer managers for this exchange offer are:

BEAR, STEARNS & CO. INC.

and

GOLDMAN, SACHS & CO.

**This document incorporates by reference important business and financial information about Viacom and Blockbuster from documents filed with the Securities and Exchange Commission that have not been included in or delivered with this document. This information is available at the website that the Securities and Exchange Commission maintains at <http://www.sec.gov>, as well as from other sources. See "Where You Can Find More Information About Viacom and Blockbuster" beginning on page 139.**

**You also may ask any questions about this exchange offer or request copies of the exchange offer documents from Viacom, without charge, upon written or oral request to Viacom's information agent, [ ], located at [ ] at [ ] (toll-free) in the United States or at [ ] (collect) elsewhere. In order to receive timely delivery of the documents, you must make your requests no later than [ ], 2004.**

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**The date of this Prospectus-Offer to Exchange is [ ], 2004.**

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**LETTER FROM BLOCKBUSTER CHAIRMAN & CEO JOHN ANTIOCO**

**To Viacom Stockholders**

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

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

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

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

***A brief history of Blockbuster's transformation***

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

Our mission didn't change in 2003. We continued to dedicate ourselves to becoming a complete source for movies and games, and to accomplishing this transformation more profitably by improving gross margins, reducing low-profit transactions, reducing advertising expenditures and refining marketing programs to give us a better return on investment. This focus on profitability played a central role in our efforts to transform Blockbuster because the steady operating cash flow from our core rental business has provided us with the ability to invest in new initiatives that should enable us to evolve into a complete source for movies and games. Specifically, these new initiatives are rental

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subscription programs (both in-store and online), movie and game trading, and store-in-store games concepts.

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

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

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

We recognize that the video rental market has contracted as a result of the format change from VHS to DVD and the resulting elimination of the exclusive rental window. Some customers are buying movies instead of renting now that they have a choice to buy retail priced DVDs, and that dynamic should continue to provide challenges both for Blockbuster and the rest of the movie rental industry. However, the market shift to DVD, with lower wholesale pricing than was historically available for VHS movies, has also presented us with opportunities. Due in part to the shift from rental-priced VHS to retail-priced DVD, Blockbuster's rental gross margin significantly improved last year, producing a sizeable gain in gross profit dollars as evidenced by an increase in our consolidated gross profit dollars of almost 10% year-over-year in 2003.

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

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

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

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

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

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

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

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

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

As for renting movies online, we see this as a sizable opportunity that can contribute to our long-term profitability. As a defensive strategy, we don't want customers, who are interested in renting online, going anywhere else for their movies. As an offensive move, we think online rentals could represent new customers for us because many potential subscribers live outside the proximity of a BLOCKBUSTER store.

To begin serving these potential online customers, we launched an online rental service in the United Kingdom in mid-May, and our goal is to have an online rental offering available in the United States later this year. Our plan is to utilize the full power of our globally recognized brand, our marketing ability, our rich customer database and the promotional opportunities afforded by our store network to gain as many subscribers as possible. We see no reason why we can't have a substantial share of the online rental transactions by the end of next year. We are also proceeding with our plans to merge our U.S. in-store and online subscription programs in 2005. This integrated approach should give our customers the best of both worlds—the ability to rent or return movies by mail or at their local BLOCKBUSTER store.

### ***The movie trading business—a new growth opportunity***

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

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

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

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

Our plan is to have movie and game trading available in more than 2,000 of our domestic stores and all of our 700-plus UK stores by the end of 2004.

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

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

In the United Kingdom, our GAMESTATION® chain continues to perform extremely well. As of March 31, 2004, we had a total of 153 GAMESTATION locations, both freestanding and store-in-stores, an addition of 89 locations in the 17 months since we purchased the chain in late 2002.

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

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

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

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

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

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

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

### ***In Summary***

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

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



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

Sincerely,

JOHN ANTIOCO

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**QUESTIONS AND ANSWERS ABOUT THIS EXCHANGE OFFER**

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

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

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

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

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

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

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

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

A: The split-off is intended to establish Blockbuster as an independent entity. Consequently, after this exchange offer, because Viacom will no longer own a controlling interest in Blockbuster, Blockbuster's board of directors and management will be free to pursue initiatives that they believe are in Blockbuster's best

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interest without requiring these initiatives to be consistent with Viacom's view of the best interests of Blockbuster or Viacom. In addition, after this exchange offer, Blockbuster will provide all of its own management, financial, tax, accounting, legal and other resources, some of which were previously provided by Viacom. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Transition Services Agreement" on page 99. In addition, all of the Blockbuster directors who are also directors or officers of Viacom will resign from Blockbuster's board of directors.

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

A: Following the split-off, Blockbuster anticipates that the renegotiation of services or contracts currently provided by Viacom will result in increased operating expenses. In addition, prior to the commencement of this exchange offer, on [ ], 2004, Blockbuster paid a pro rata special cash distribution of \$5.00 per share (approximately \$905 million in the aggregate) to its stockholders, which is referred to in this Prospectus-Offer to Exchange as the special distribution. As a Viacom stockholder, you were not entitled to receive the special distribution, unless, as of the record date for the special distribution, you also directly held shares of Blockbuster common stock. To fund the payment of this special distribution and finance transaction costs and expenses in connection with the split-off and the special distribution, on [ ], 2004, Blockbuster incurred \$950 million of additional indebtedness, which will result in increased interest expense as well as customary restrictions regarding matters such as dividends, capital expenditures and the ability to incur additional indebtedness. See the sections entitled "Market Prices and Dividend Information Shares of Blockbuster Class A and Class B Common Stock and Dividends" and "Description of Other Material Agreements New Blockbuster Credit Agreement" beginning on pages 72 and 134, respectively.

***Q: May I participate in this exchange offer?***

A: Any holder of Viacom class A or class B common stock, including Viacom class A or class B common stock that is held through a Viacom or Blockbuster employee benefit plan, may participate in this exchange offer. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan, the Infinity Broadcasting Corporation Union Employees' 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of [ ], 2004.

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

A: Subject to the proration procedures described below, you will receive [ ] shares of Blockbuster class A common stock and [ ] shares of Blockbuster class B common stock for each share of Viacom common stock that you tender and do not withdraw in this exchange offer, regardless of whether you tender shares of Viacom class A or class B common stock. This relationship between the number of shares of Blockbuster class A and class B common stock you will receive in exchange for each share of Viacom common stock you tender is referred to in this Prospectus-Offer to Exchange as the exchange ratio. Fractional shares of Blockbuster class A and class B common stock will not be issued in this exchange offer; instead you will receive cash in lieu of fractional shares. The exchange agent, acting as agent for the Viacom stockholders otherwise entitled to receive fractional shares of Blockbuster class A and class B common stock, will aggregate all fractional shares and cause them to be sold in the open market for the accounts of these stockholders.

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

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

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

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

A: Viacom has agreed to convert [ ] shares of Blockbuster class B common stock on a one-for-one basis into Blockbuster class A common stock and offer both classes of stock in this exchange offer. As discussed below, Blockbuster's amended and restated certificate of incorporation, which is referred to in this Prospectus-Offer to Exchange as Blockbuster's certificate of incorporation, will be amended upon Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments will provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Viacom has agreed to convert these shares and to support the change in the voting rights of the Blockbuster class B common stock as the result of arm's length negotiations with a special committee of Blockbuster's board of directors comprised of directors who are independent of Viacom and Blockbuster, which is referred to in this Prospectus-Offer to Exchange as the Blockbuster special committee. The Blockbuster special committee believes that an equity capitalization of Blockbuster following the completion of this exchange offer that consists of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock will enhance the liquidity of the Blockbuster class A common stock. Viacom's conversion of Blockbuster class B common stock to Blockbuster class A common stock is governed by the amended and restated initial public offering and split-off agreement, which is referred to in this Prospectus-Offer to Exchange as the IPO agreement. See the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 91.

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

A: Shares of Blockbuster class A common stock are traded on the New York Stock Exchange. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing price for the Blockbuster class A common stock was \$[ ]. There is currently no trading market for Blockbuster class B common stock, and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. In addition, neither Viacom nor Blockbuster can predict the prices at which Blockbuster class A or

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class B common stock will trade after this exchange offer. Shares of Viacom class A and class B common stock are traded on the New York Stock Exchange. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing price for the Viacom class A and class B common stock was \$[ ] and \$[ ], respectively. Whether Viacom stockholders participating in this exchange offer will receive a premium for their shares of Viacom common stock will depend on the prices for shares of Viacom class A or class B common stock and Blockbuster class A common stock at the expiration date of this exchange offer. Since the market prices of shares of Viacom class A and class B common stock and Blockbuster class A common stock fluctuate, Viacom cannot predict the prices at which shares of Viacom class A or class B common stock and Blockbuster class A common stock will be trading at the expiration date of this exchange offer, and, therefore, cannot predict whether stockholders who participate in this exchange offer will receive a premium for their shares of Viacom class A or class B common stock, or, if they do, the amount of such premium.

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

**A:** Yes. Viacom is not required to complete this exchange offer unless the conditions beginning on page 64 are satisfied or waived prior to the expiration of this exchange offer. For example, Viacom is not required to complete this exchange offer unless at least [ ] shares of Viacom class A and class B common stock are tendered so that Viacom can exchange at least 60% of the shares of Blockbuster class B common stock and converted class A common stock that Viacom owns. The minimum number of shares of Viacom class A and class B common stock that must be tendered is referred to in this Prospectus-Offer to Exchange as the minimum amount. Viacom may waive any or all of the conditions to this exchange offer, including the requirement that the minimum amount of shares of Viacom class A and class B common stock be tendered. Blockbuster has no right to waive any of the conditions to this exchange offer. However, Viacom has certain contractual obligations with Blockbuster with respect to the disposition of its Blockbuster class B common stock and converted class A common stock even if the minimum amount condition has not been satisfied, as described in the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transaction Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 91.

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

**A:** In this case, as soon as practicable following the completion of this exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class B common stock and converted class A common stock (if any), except that once Viacom has so distributed more than 80% of the total voting power of Blockbuster in the aggregate in this exchange offer and any spin-off, Viacom may elect not to distribute its remaining shares in a spin-off, so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the adjustment described in the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 91. This spin-off is referred to in this Prospectus-Offer to Exchange as the spin-off.

***Q: What happens if more than [ ] shares of Viacom common stock are tendered?***

**A:** If more than [ ] shares of Viacom common stock are tendered in the aggregate, all shares of Viacom common stock that are properly tendered will be accepted for exchange on a pro rata basis in proportion to the number of shares tendered. This is referred to in this Prospectus-Offer to Exchange as proration. An exception to proration is that stockholders who beneficially own odd-lots, that is, fewer

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

***Q: When does this exchange offer expire?***

A: The period during which you are permitted to tender your shares of Viacom class A or class B common stock in this exchange offer will expire at 12:00 midnight, New York City time, on [ ], 2004, unless Viacom extends the expiration of this exchange offer. If you hold shares of Viacom class A or class B common stock through a Viacom or Blockbuster employee benefit plan, you may have an earlier deadline for directing the trustees of these plans to tender shares held in your plan account. Please refer to the instructions to tender that will be sent to you separately by the trustees or administrators of these plans. You must tender your shares prior to the expiration of this exchange offer (or such earlier date as communicated to you by the trustees or administrators of the employee benefit plans) if you wish to participate. Viacom also may terminate this exchange offer in the circumstances described in the section entitled "The Exchange Offer Extension; Termination; Amendment" beginning on page 63.

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

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

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

A: The number of shares of Viacom common stock that will be accepted if this exchange offer is completed is between [ ] shares, which is the minimum amount, and [ ] shares.

The minimum amount of Viacom class A and class B common stock that Viacom has indicated it would acquire in this exchange offer is [ ] shares, or [ ]%, of Viacom common stock outstanding as of [ ], 2004. If Viacom acquires this minimum amount, it will exchange [ ] shares, or [ ]%, of Blockbuster class B common stock and [ ] shares, or [ ]%, of the converted class A common stock.

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

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

A: Yes. In addition to the converted class A common stock, Viacom owns approximately 3.6 million shares, or approximately 9.7%, of Blockbuster class A common stock outstanding as of May 21, 2004, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of this exchange offer by contributing these shares of Blockbuster class A common stock to the Viacom Pension Plan and the CBS Combined Pension Plan. Pursuant to an amended and restated registration rights agreement between Blockbuster and Viacom, which is referred to in this Prospectus-Offer to Exchange as the registration rights agreement, Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan and the CBS Combined Pension Plan.

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

A: No. National Amusements, Inc., the controlling stockholder of Viacom, will not participate in this exchange offer. National Amusements, Inc. is referred to in this Prospectus-Offer to Exchange as National Amusements. As of May 21, 2004, National Amusements beneficially owned shares of Viacom class A common stock representing approximately 71% of the voting power of all classes of Viacom stock, and approximately 11% of Viacom class A and class B common stock on a combined basis. The decision not to participate is consistent with the fact that National Amusements has never sold or otherwise disposed of any of its holdings in Viacom. Mr. Sumner M. Redstone, the controlling stockholder of National Amusements and the chairman of the board of directors and chief executive officer of Viacom, is committed to focusing his managerial and financial resources on developing and growing the core businesses of Viacom.

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

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

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

your individual investment strategy with regard to these stocks.

In addition, you should consider all of the factors described in the section entitled Risk Factors beginning on page 30. None of Viacom, Blockbuster, or any of their respective directors or officers or the co-dealer managers makes any recommendation as to whether you should tender your shares of Viacom class A or class B common stock. You must make your own decision after carefully reading this

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

***Q: How do I participate in this exchange offer?***

A: The procedures you must follow to participate in this exchange offer will depend on whether you hold your shares of Viacom class A or class B common stock in certificated form, through a bank or broker or through a Viacom or Blockbuster employee benefit plan. For specific instructions about how to participate, see the section entitled The Exchange Offer Procedures for Tendering beginning on page 58.

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

A: If you hold Viacom class A or class B common stock as a participant in a Viacom or



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Blockbuster employee benefit plan, you should follow the instructions sent to you separately by the plan trustees or administrators. You should not use the letter of transmittal to direct the tender of Viacom class A or class B common stock held in any such employee benefit plans. Instead, you may direct the plan trustee to tender none, some or all of the Viacom class A or class B common stock in your employee benefit plan account. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan, the Infinity Broadcasting Corporation Union Employees' 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of [ ], 2004. See the section entitled "The Exchange Offer Procedures for Tendering" beginning on page 58 for a list of the Viacom and Blockbuster employee benefit plans eligible to participate in this exchange offer and for specific instructions on how to participate.

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

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

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

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

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

A: Yes. You may withdraw your tendered shares at any time before this exchange offer expires. See the section entitled "The Exchange Offer Withdrawal Rights" beginning on page 62. If you change your mind again, you can re-tender your Viacom class A or class B common stock by following the tender procedures again prior to the expiration of this exchange offer.

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

A: Shares of Blockbuster class A and class B common stock will be delivered by book-entry transfer as soon as practicable after acceptance of shares of Viacom common stock in this exchange offer and determination of the final proration factor, if any. See the section entitled "The Exchange Offer Book-Entry Accounts" on page 63.

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

A: Yes. Blockbuster expects that following the completion of this exchange offer, the shares of Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol [ ]. Blockbuster intends to apply for listing of shares of Blockbuster class B common stock following the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part.

***Q: Why is Blockbuster amending its organizational documents?***

A: Following the recommendation of Blockbuster's board of directors, Blockbuster's stockholders approved certain amendments to Blockbuster's certificate of incorporation at Blockbuster's 2004 annual meeting. These amendments will be filed and become effective immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and



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Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. In addition, the amendments remove provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. These amendments are referred to in this Prospectus-Offer to Exchange as the Blockbuster charter amendments.

Blockbuster's board of directors is also amending its bylaws to remove the provisions relating to Viacom as a stockholder of Blockbuster and to add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. For a more complete description of the Blockbuster charter amendments and the amendments to Blockbuster's bylaws, see the sections entitled Description of Capital Stock of Blockbuster and Comparison of Stockholder Rights beginning on pages 120 and 128, respectively.

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

A: No. Following the effectiveness of the Blockbuster charter amendments, shares of Blockbuster class B common stock will not be convertible into shares of Blockbuster class A common stock. See the section entitled Description of Capital Stock of Blockbuster beginning on page 120.

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

A: Yes. Holders of shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Also, see the sections entitled Description of Capital Stock of Blockbuster, and Comparison of Stockholder Rights beginning on pages 120 and 128, respectively.

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

A: No, except with respect to cash paid in lieu of fractional shares of Blockbuster class A and class B common stock. Viacom will receive a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and, if applicable, the spin-off will be tax-free to Viacom and its stockholders, except with respect to any cash received in lieu of fractional shares of Blockbuster class A and class B common stock. This opinion will not address state, local or foreign tax consequences of this exchange offer which may be applicable to Viacom and its stockholders. You should consult your tax advisor as to the particular tax consequences to you of this exchange offer. See the sections entitled Risk Factors Risk Factors Relating to this Exchange Offer If this Exchange Offer and Any Spin-Off Are Determined to Be Taxable, Viacom and Tendering Stockholders Could Be Subject to a Material Amount of Taxes and U.S. Federal Income Tax Consequences beginning on pages 47 and 105, respectively.

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

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

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

A: You can find out more information about Viacom and Blockbuster from various sources described in the section entitled *Where You Can Find More Information About Viacom and Blockbuster* beginning on page 139.

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

A: You may call the information agent, [ ], at [ ] (toll-free) in the United States, or [ ] (collect) elsewhere, to ask any questions about this exchange offer or to request additional documents, including copies of this document.

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**SUMMARY**

As used in this document, unless the context requires otherwise, (1) references to Viacom include Viacom Inc. and its consolidated subsidiaries and (2) references to Blockbuster include Blockbuster Inc. and its consolidated subsidiaries. Unless the context otherwise indicates, Viacom has assumed throughout this document that this exchange offer is fully subscribed and that all shares of Blockbuster class B common stock and converted class A common stock held by Viacom are distributed through this exchange offer. This brief summary does not contain all of the information that should be important to you. You should carefully read this entire document and the other documents to which this document refers to fully understand this exchange offer. See the section entitled "Where You Can Find More Information About Viacom and Blockbuster" beginning on page 139.

**THE COMPANIES**

Viacom Inc.

1515 Broadway

New York, New York 10036

(212) 258-6000

[www.viacom.com](http://www.viacom.com)

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

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

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

**Radio:** The radio segment owns and operates 185 radio stations through INFINITY RADIO®.

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

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

## Edgar Filing: BLOCKBUSTER INC - Form S-4/A

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

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Blockbuster Inc.

1201 Elm Street

Dallas, Texas 75270

(214) 854-3000

[www.blockbuster.com](http://www.blockbuster.com)

Blockbuster is a leading global provider of in-home rental and retail movie and game entertainment, with approximately 8,900 stores in the United States, its territories and 25 other countries as of March 31, 2004. As of that date, Blockbuster operated approximately 7,100 of the stores, and its franchisees operated approximately 1,800 of the stores. In addition to operating stores under the BLOCKBUSTER® and BLOCKBUSTER VIDEO® brands, Blockbuster operates stores under other brands, such as XTRA-VISION® and MR. MOVIES®. Blockbuster's specialty stores, or store-in-store concepts, use brands such as GAME RUSH, GAMESTATION®, MOVIE TRADING CO.®, and RHINO VIDEO GAMES®. See Blockbuster's Annual Report on Form 10-K for the year ended December 31, 2003 and Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which reports are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively.

## **THE EXCHANGE OFFER**

*Terms of this Exchange Offer (page 56)*

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

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

*Extension; Termination; Amendment (page 63)*

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

*Conditions for Completion of this Exchange Offer (page 64)*

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



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### *Proration; Odd-Lots (page 57)*

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

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

### *Fractional Shares (page 57)*

Fractional shares of Blockbuster class A and class B common stock will not be issued in this exchange offer. The exchange agent, acting as agent for the tendering Viacom stockholders, will aggregate any fractional shares and cause them to be sold in the open market. You will receive the proceeds, if any, net of commissions, from the sale of these shares in accordance with your fractional interest.

### *Procedures for Tendering (page 58)*

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

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

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

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

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If you hold shares of Viacom class A or class B common stock as a participant in a Viacom or Blockbuster employee benefit plan and your shares are eligible to be tendered in this exchange offer under the terms of the relevant plan, you will receive separate instructions on how to tender these shares and a form of election to tender your shares held under these plans from the trustees or administrators of these plans. In this situation, do not use the letter of transmittal to tender shares of Viacom class A or class B common stock held under these plans; or

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If you wish to tender your shares of Viacom class A or class B common stock but the shares are not immediately available, or time will not permit the shares or other required documentation to reach the exchange agent prior to the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, you must follow the procedures for guaranteed delivery under the section entitled "The Exchange Offer Procedures for Tendering Guaranteed Delivery Procedures" beginning on page 60.

### *Delivery of Shares of Blockbuster Class A and Class B Common Stock (page 58)*

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

### *Withdrawal Rights (page 62)*

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

### *No Appraisal Rights (page 54)*

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

### *Legal Limitations (page 67)*

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

## **SPIN-OFF AND DISPOSITIONS OF BLOCKBUSTER COMMON STOCK (page 68)**

### *Blockbuster Class B Common Stock and Converted Class A Common Stock*

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

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Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 91. The exchange agent, acting in its ongoing capacity as transfer agent for the Viacom stockholders otherwise entitled to receive fractional shares of Blockbuster class B common stock and converted class A common stock, will aggregate and cause to be sold all such fractional shares in the open market for the account of these stockholders.

### *Blockbuster Class A Common Stock*

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

## **RISK FACTORS (page 30)**

In deciding whether to tender your shares of Viacom class A or class B common stock, you should carefully consider the matters described in the section entitled Risk Factors beginning on page 30, as well as other information included in this document and the other documents to which you have been referred.

## **COMPARATIVE MARKET VALUE OF SECURITIES (page 71)**

Viacom class A common stock and Viacom class B common stock is listed on the New York Stock Exchange under the symbols VIA and VIAB, respectively. Blockbuster class A common stock is listed on the New York Stock Exchange under the symbol BBI. Following the completion of this exchange offer, Blockbuster expects that the Blockbuster class B common stock will be listed on the New York Stock Exchange. Blockbuster intends to apply for listing of the shares of Blockbuster class B common stock on the New York Stock Exchange following the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part.

On June 17, 2004, the last New York Stock Exchange trading day before the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing sale prices of the Viacom class A common stock, the Viacom class B common stock and the Blockbuster class A common stock were \$37.21, \$36.66 and \$15.39, respectively. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing sale prices of the Viacom class A common stock, the Viacom class B common stock and the Blockbuster class A common stock were \$[ ], \$[ ] and \$[ ], respectively.

## **DESCRIPTION OF CAPITAL STOCK OF BLOCKBUSTER (page 120)**

Following the effectiveness of the Blockbuster charter amendments, shares of Blockbuster class B common stock will not be convertible into shares of Blockbuster class A common stock. Holders of shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this

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Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Also see the section entitled Description of Capital Stock of Blockbuster Common Stock beginning on page 120.

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**REGULATORY APPROVAL (page 55)**

Certain acquisitions of Blockbuster class A and class B common stock under this exchange offer may require a premerger notification filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. If you decide to participate in this exchange offer and, consequently, acquire enough shares of Blockbuster class A and class B common stock to exceed the \$50 million threshold stated in the Hart-Scott-Rodino Act and associated regulations, and if an exemption under the Hart-Scott-Rodino Act or regulations does not apply, Viacom and you would be required to make filings under the Hart-Scott-Rodino Act and you would be required to pay the applicable filing fee. A filing requirement could delay the exchange of shares with you until the waiting periods in the Hart-Scott-Rodino Act have expired or been terminated. See the section entitled *The Transaction Regulatory Approval* beginning of page 55.

**U.S. FEDERAL INCOME TAX CONSEQUENCES (page 105)**

Viacom will receive a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and, if applicable, the spin-off will be tax-free to Viacom and its stockholders, except with respect to any cash received in lieu of fractional shares of Blockbuster class A and class B common stock. This tax opinion will not address any state, local or foreign tax consequences of this exchange offer which may be applicable to Viacom and its stockholders. You should consult your tax advisor as to the particular consequences to you of this exchange offer. See the sections entitled *Risk Factors Risk Factors Relating to this Exchange Offer If this Exchange Offer and Any Spin-Off Are Determined to be Taxable, Viacom and Tendering Stockholders Could Be Subject to a Material Amount of Taxes* and *U.S. Federal Income Tax Consequences* beginning on pages 47 and 105, respectively.

**ACCOUNTING TREATMENT OF THIS EXCHANGE OFFER (page 55)**

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

**THE EXCHANGE AGENT**

The exchange agent for this exchange offer is [            ].

**THE INFORMATION AGENT**

The information agent for this exchange offer is [            ].

**THE CO-DEALER MANAGERS**

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



**Table of Contents****COMPARATIVE PER SHARE DATA**

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

**Viacom Per Share Data**

	Year Ended or at December 31,					Three Months Ended or at March 31,	
	1999	2000	2001	2002	2003	2003	2004
<b>Historical per share data</b>							<b>(unaudited)</b>
Net earnings (loss) before cumulative effect of change in accounting principle:							
Basic	\$ 0.46	\$ (0.30)	\$ (0.13)	\$ 1.26	\$ 0.82	\$ 0.26	\$ 0.41
Diluted	\$ 0.45	\$ (0.30)	\$ (0.13)	\$ 1.24	\$ 0.82	\$ 0.26	\$ 0.41
Net earnings (loss):							
Basic	\$ 0.46	\$ (0.67)	\$ (0.13)	\$ 0.41	\$ 0.81	\$ 0.25	\$ 0.41
Diluted	\$ 0.45	\$ (0.67)	\$ (0.13)	\$ 0.41	\$ 0.80	\$ 0.25	\$ 0.41
Book value per common share(1)	\$ 15.95	\$ 32.07	\$ 35.71	\$ 35.78	\$ 36.44	\$ 36.04	\$ 36.75
Cash dividends declared per common share(2)					\$ 0.12		\$ 0.06
<b>Unaudited pro forma per share data</b>							
Pro forma net earnings (loss) before cumulative effect of change in accounting principle:							
Basic			\$ [ ]	\$ [ ]	\$ [ ]		\$ [ ]
Diluted			\$ [ ]	\$ [ ]	\$ [ ]		\$ [ ]
Pro forma book value per pro forma common share(3)							\$ [ ]
Pro forma cash dividends per common share(2)					\$ 0.12		\$ 0.06

**Blockbuster Per Share Data**

	Year Ended or at December 31,					Three Months Ended or at March 31,	
	1999	2000	2001	2002	2003	2003	2004
<b>Historical per share data</b>							<b>(unaudited)</b>
Income (loss) before cumulative effect of change in accounting principle:							
	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ 1.06	\$ (5.44)	\$ 0.47	\$ 0.62

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Basic							
Diluted	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ 1.04	\$ (5.44)	\$ 0.47	\$ 0.62
Net income (loss):							
Basic	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ (9.11)	\$ (5.46)	\$ 0.45	\$ 0.62
Diluted	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ (8.96)	\$ (5.46)	\$ 0.45	\$ 0.62
Book value per common share(1)	\$ 35.00	\$ 34.33	\$ 32.52	\$ 23.20	\$ 17.96	\$ 23.63	\$ 18.57
Cash dividends declared per common share(4)	\$ 0.02	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.02	\$ 0.02

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	Year Ended or at December 31,					Three Months Ended or at	
						March 31,	
	1999	2000	2001	2002	2003	2003	2004
<b>Unaudited pro forma per share data</b>							(unaudited)
Pro forma income (loss) before cumulative effect of change in accounting principle:							
Basic					\$ (5.67)		\$ 0.57
Diluted					\$ (5.67)		\$ [ ]
Pro forma book value per pro forma common share(5)							\$ 13.60
Pro forma cash dividends per common share(6)					\$ 5.08		\$ 0.02

- (1) Book value per common share is defined as total stockholders' equity divided by the sum of the outstanding class A and class B common stock.
- (2) Viacom's board of directors has declared a quarterly cash dividend of \$0.06 per share on its common stock beginning in the third quarter of 2003.
- (3) The pro forma outstanding shares used in calculating Viacom's pro forma book value per share reflect the reduction of [ ] million shares as a result of the consummation of this exchange offer (see the section entitled "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on page 76).
- (4) Blockbuster's board of directors has declared a cash dividend of \$0.02 per share each quarter beginning in October 1999, after Blockbuster's initial public offering.
- (5) The pro forma stockholders' equity used in calculating Blockbuster's unaudited pro forma book value per pro forma common share reflects the payment of the special distribution and other pro forma adjustments.
- (6) Unaudited pro forma cash dividends per common share include Blockbuster's payment of a special distribution of \$5.00 per share to all Blockbuster stockholders as of January 1, 2003.

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

**Table of Contents****SELECTED HISTORICAL FINANCIAL DATA FOR VIACOM AND BLOCKBUSTER****Viacom Selected Historical Financial Data**

The selected consolidated financial data presented below has been derived from, and should be read together with, Viacom's consolidated financial statements and the accompanying notes and the related Management's Discussion and Analysis of Results of Operations and Financial Condition sections included in Viacom's Annual Report on Form 10-K for the year ended December 31, 2003 and Viacom's Quarterly Report on Form 10-Q for the period ended March 31, 2004, which are incorporated by reference into this document. To find out where you can obtain copies of Viacom's documents that have been incorporated by reference, see the section entitled "Where You Can Find More Information About Viacom and Blockbuster" beginning on page 139.

**Viacom Inc.****Statement of Operations Data**

(in millions, except per share amounts)

	Year Ended December 31,					Three Months Ended	
						March 31,	
	1999	2000(a)(b)	2001(c)	2002(d)	2003(e)(f)	2003	2004(f)
							(unaudited)
Revenues	\$ 12,858.8	\$ 20,043.7	\$ 23,222.8	\$ 24,605.7	\$ 26,585.3	\$ 6,050.8	\$ 6,772.4
Depreciation and amortization	\$ 844.7	\$ 2,223.5	\$ 3,087.0	\$ 945.6	\$ 999.8	\$ 241.2	\$ 251.5
Operating income	\$ 1,247.3	\$ 1,320.9	\$ 1,460.2	\$ 4,596.7	\$ 3,625.8	\$ 986.8	\$ 1,179.5
Net earnings (loss) before cumulative effect of change in accounting principle	\$ 334.0	\$ (363.8)	\$ (223.5)	\$ 2,206.6	\$ 1,435.4	\$ 461.6	\$ 710.5
Net earnings (loss)	\$ 334.0	\$ (816.1)	\$ (223.5)	\$ 725.7	\$ 1,416.9	\$ 443.1	\$ 710.5
Net earnings (loss) attributable to common stock	\$ 321.6	\$ (816.1)	\$ (223.5)	\$ 725.7	\$ 1,416.9	\$ 443.1	\$ 710.5
Basic earnings (loss) per common share:							
Net earnings (loss) before cumulative effect of change in accounting principle	\$ 0.46	\$ (0.30)	\$ (0.13)	\$ 1.26	\$ 0.82	\$ 0.26	\$ 0.41
Net earnings (loss)	\$ 0.46	\$ (0.67)	\$ (0.13)	\$ 0.41	\$ 0.81	\$ 0.25	\$ 0.41
Diluted earnings (loss) per common share:							
Net earnings (loss) before cumulative effect of change in accounting principle	\$ 0.45	\$ (0.30)	\$ (0.13)	\$ 1.24	\$ 0.82	\$ 0.26	\$ 0.41
Net earnings (loss)	\$ 0.45	\$ (0.67)	\$ (0.13)	\$ 0.41	\$ 0.80	\$ 0.25	\$ 0.41
Weighted average shares outstanding:							
Basic	695.2	1,225.3	1,731.6	1,752.8	1,744.0	1,745.9	1,731.0
Diluted	709.5	1,225.3	1,731.6	1,774.8	1,760.7	1,761.1	1,744.5

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Cash dividends declared per common share	\$	\$	\$	\$	\$	0.12	\$	0.06
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**Table of Contents****Viacom Inc.****Balance Sheet Data****(in millions)**

	At December 31,					At March 31,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	
Total assets	\$ 24,486.4	\$ 82,809.3	\$ 90,809.9	\$ 90,043.2	\$ 89,848.5	\$ 89,165.4	\$ 89,731.5
Long-term debt, including capital leases(g)	\$ 5,992.0	\$ 12,697.7	\$ 11,122.7	\$ 10,404.2	\$ 9,879.5	\$ 10,075.5	\$ 9,820.7
Total stockholders' equity	\$ 11,132.0	\$ 47,966.9	\$ 62,716.8	\$ 62,487.8	\$ 63,205.0	\$ 62,891.6	\$ 63,493.0

- (a) As a result of the adoption of Statement of Position 00-2, Accounting by Producers or Distributors of Films, Viacom recorded a non-cash after-tax charge of \$452.3 million as a cumulative effect of a change in accounting principle.
- (b) On May 4, 2000, CBS Corporation merged with and into Viacom, and, effective from such date, its results of operations are included in Viacom's consolidated financial results.
- (c) Results include a primarily non-cash Blockbuster charge of \$396.6 million (\$198.3 million, net of minority interest and tax) for the elimination of less-productive VHS tapes, a charge of approximately \$75.4 million at MTV Networks related to a restructuring plan to reduce headcount and close certain international offices and a charge of \$53.4 million in connection with the integration of UPN and CBS Network operations.
- (d) As a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets (SFAS 142), Viacom recorded an after-tax non-cash charge of \$1.5 billion, net of \$336.1 million of minority interest, as a cumulative effect of a change in accounting principle.
- (e) Results include a non-cash charge of \$1.3 billion (\$1.0 billion, net of minority interest and tax) related to a reduction in Blockbuster's goodwill and other long-lived assets resulting from the application of SFAS 142 and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144).
- (f) Viacom's board of directors declared a quarterly cash dividend of \$0.06 per share on its common stock during the third and fourth quarters of 2003 and the first quarter of 2004.
- (g) Long-term debt, including capital leases, includes both the current and long-term portions of long-term debt and capital leases.

**Table of Contents****Blockbuster Selected Historical Financial Data**

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

**Blockbuster Inc.****Statement of Operations Data**

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

	Year Ended or at December 31,					Three Months Ended or at March 31,	
	1999	2000(a)	2001(b)	2002	2003(c)	2003	2004
							(unaudited)
Revenues	\$ 4,463.5	\$ 4,960.1	\$ 5,156.7	\$ 5,565.9	\$ 5,911.7	\$ 1,517.8	\$ 1,503.1
Gross profit	\$ 2,701.0	\$ 2,924.1	\$ 2,736.0	\$ 3,207.2	\$ 3,521.9	\$ 886.1	\$ 923.6
Amortization of intangibles	\$ 171.8	\$ 180.1	\$ 177.1	\$ 1.7	\$ 2.4	\$ 0.3	\$ 0.5
Impairment of goodwill and other long-lived assets	\$	\$	\$	\$	\$ 1,304.9	\$	\$
Operating income (loss)	\$ 121.7	\$ 75.7	\$ (219.6)	\$ 337.1	\$ (845.2)	\$ 148.7	\$ 124.9
Income (loss) before cumulative effect of change in accounting principle	\$ (69.2)	\$ (75.9)	\$ (240.3)	\$ 189.4	\$ (979.5)	\$ 84.9	\$ 112.6
Cumulative effect of change in accounting principle, net of tax(d)	\$	\$	\$	\$ (1,817.0)	\$ (4.4)	\$ (4.4)	\$
Net income (loss)	\$ (69.2)	\$ (75.9)	\$ (240.3)	\$ (1,627.6)	\$ (983.9)	\$ 80.5	\$ 112.6
Basic earnings (loss) per common share:							
Income (loss) before cumulative effect of change in accounting principle	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ 1.06	\$ (5.44)	\$ 0.47	\$ 0.62
Net income (loss)(d)	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ (9.11)	\$ (5.46)	\$ 0.45	\$ 0.62
Diluted earnings (loss) per common share:							
Income (loss) before cumulative effect of change in accounting principle	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ 1.04	\$ (5.44)	\$ 0.47	\$ 0.62
Net income (loss)(d)	\$ (0.44)	\$ (0.43)	\$ (1.37)	\$ (8.96)	\$ (5.46)	\$ 0.45	\$ 0.62
Dividends per share	\$ 0.02	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.02	\$ 0.02
Weighted average shares outstanding:							
Basic	156.1	175.0	175.6	178.6	180.1	179.6	181.0
Diluted	156.1	175.0	175.6	181.6	180.1	180.1	182.0

**Balance Sheet Data**

Total assets	\$ 8,540.8	\$ 8,548.9	\$ 7,752.4	\$ 6,243.8	\$ 4,854.9	\$ 5,981.0	\$ 4,747.7
	\$ 1,325.2	\$ 1,169.3	\$ 727.8	\$ 541.5	\$ 219.9	\$ 562.5	\$ 158.8

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Long-term debt, including capital leases(i)								
Total stockholders equity	\$ 6,125.0	\$ 6,008.4	\$ 5,748.7	\$ 4,167.0	\$ 3,249.3	\$ 4,246.8	\$ 3,362.4	



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	Year Ended or at December 31,					Three Months Ended or at March 31,	
	1999	2000(a)	2001(b)	2002	2003(c)	2003	2004
							(unaudited)
<b>Cash Flow Data</b>							
Cash flows provided by operating activities	\$ 1,142.8	\$ 1,320.8	\$ 1,395.1	\$ 1,451.2	\$ 1,416.1	\$ 185.3	\$ 190.4
Cash flows used for investing activities	\$ (1,258.1)	\$ (1,056.8)	\$ (945.2)	\$ (1,303.5)	\$ (1,010.4)	\$ (221.4)	\$ (223.3)
Cash flows provided by/(used for) financing activities	\$ 137.2	\$ (187.2)	\$ (441.2)	\$ (199.2)	\$ (335.5)	\$ 16.4	\$ (66.2)
<b>Margins</b>							
Rental margin(e)	66.0%	64.4%	57.7%	66.1%	70.0%	67.9%	71.8%
Merchandise margin(f)	21.0%	21.4%	18.9%	17.1%	19.8%	17.1%	23.0%
Gross margin(g)	60.5%	59.0%	53.1%	57.6%	59.6%	58.4%	61.4%
<b>Worldwide Store Data</b>							
Same store revenues increase (decrease)(h)	8.3%	5.6%	2.5%	5.1%	(2.2)%	5.3%	(7.0)%
Company-operated stores at end of period	5,879	6,254	6,412	6,907	7,105	6,970	7,112
Franchised and joint venture stores at end of period	1,274	1,423	1,569	1,638	1,762	1,647	1,779
Total stores at end of period	7,153	7,677	7,981	8,545	8,867	8,617	8,891

- (a) During the fourth quarter of 2000, Blockbuster recognized a non-cash charge of \$31.6 million, related to the impairment of certain hardware and capitalized software costs in its new media segment.
- (b) In 2001, Blockbuster recognized charges of \$396.6 million related to the execution of a strategic re-merchandising plan to allow for an expansion of store space for DVD and other strategic product offerings and a change in accounting estimates related to its rental library. The charges decreased gross profit by \$337.6 million and operating income by \$394.7 million.
- (c) During the fourth quarter of 2003, Blockbuster recognized a non-cash charge of \$1.3 billion to record an impairment of goodwill and other long-lived assets, in accordance with SFAS 142 and SFAS 144.
- (d) During the first quarter of 2002, Blockbuster adopted SFAS 142 which eliminates the amortization of goodwill and intangible assets with indefinite lives and requires instead that those assets be tested for impairment annually. The application of the transition provisions of this new accounting standard required Blockbuster to reduce its goodwill by \$1.82 billion. During the first quarter of 2003, Blockbuster adopted SFAS 143, Accounting for Asset Retirement Obligations, which requires the capitalization of any retirement costs as part of the total cost of the related long-lived asset and the subsequent allocation of the total expense to future periods. The application of this new accounting standard required Blockbuster to record a \$4.4 million cumulative effect of a change in accounting principle.
- (e) Rental gross profit as a percentage of rental revenues.
- (f) Merchandise gross profit as a percentage of merchandise sales.
- (g) Gross profit as a percentage of total revenues.
- (h) A store is included in the same store revenues calculation after it has been opened and operated by Blockbuster for more than 52 weeks. An acquired store becomes part of the same store base in the 53rd week after its acquisition and conversion. The percentage change is computed by comparing total net revenues for stores at the end of the applicable reporting period with total net revenues from these same stores for the comparable period in the prior year.
- (i) Long-term debt, including capital leases, includes both the current and long-term portions of long-term debt and capital leases.

**Table of Contents****SUMMARY UNAUDITED PRO FORMA CONSOLIDATED CONDENSED FINANCIAL INFORMATION FOR VIACOM AND BLOCKBUSTER****Viacom Summary Unaudited Pro Forma Consolidated Condensed Financial Information**

The following summary unaudited pro forma financial information is derived from and should be read together with the information provided in the section entitled "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" and the accompanying notes beginning on page 76. The summary unaudited pro forma financial information has been prepared based upon the historical consolidated financial statements and accompanying notes of Viacom and Blockbuster incorporated by reference or included herein as the case may be. The unaudited pro forma consolidated statement of operations data is presented as if the split-off occurred as of the beginning of the earliest period presented. The unaudited pro forma consolidated balance sheet data is presented as if the split-off occurred on March 31, 2004. For a more complete description of the split-off, see the section entitled "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" and the accompanying notes beginning on page 76.

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

**Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations Data**

(in millions, except per share amounts)

	Year Ended December 31,			Three Months Ended
	2001	2002	2003	March 31, 2004
Revenues	\$ 18,240.4	\$ 19,186.8	\$ 20,827.6	\$ 5,298.3
Operating income	\$ 1,677.9	\$ 4,223.0	\$ 4,473.8	\$ 1,056.5
Net earnings (loss) before cumulative effect of change in accounting principle	\$ (29.2)	\$ 2,030.0	\$ 2,236.8	\$ 618.8
Net earnings (loss) per common share before cumulative effect of change in accounting principle:				
Basic	[ ]	[ ]	[ ]	[ ]
Diluted	[ ]	[ ]	[ ]	[ ]
Weighted average number of common shares outstanding:				
Basic	[ ]	[ ]	[ ]	[ ]
Diluted	[ ]	[ ]	[ ]	[ ]

**Viacom Inc.**

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Unaudited Pro Forma Consolidated Condensed Balance Sheet Data  
(in millions)

	<u>At March 31, 2004</u>
Total assets	\$ [      ]
Long-term debt, including capital leases	9,661.9
Total stockholders' equity	[      ]

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**Blockbuster Summary Unaudited Pro Forma Consolidated Condensed Financial Information**

The following summary unaudited pro forma financial information is derived from and should be read together with the information provided in the section entitled "Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information" and the accompanying notes beginning on page 84. The summary unaudited pro forma financial information has been prepared based on Blockbuster's historical consolidated financial statements and accompanying notes included in Blockbuster's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively. The unaudited pro forma consolidated condensed statement of operations data assumes that the split-off and related transactions occurred as of January 1, 2003. The unaudited pro forma consolidated balance sheet data assumes that these transactions occurred as of March 31, 2004. For a more complete description of the Blockbuster pro forma adjustments, see the section entitled "Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information" and the accompanying notes thereto beginning on page 84.

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

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

**Table of Contents****Blockbuster Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations Data**

(in millions, except per share amounts)

	Year Ended		Three Months Ended
	December 31, 2003		March 31, 2004
Revenues	\$	5,911.7	\$ 1,503.1
Gross profit	\$	3,521.9	\$ 923.6
Operating income (loss)	\$	(861.8)	\$ 120.7
Income (loss) before cumulative effect of change in accounting principle	\$	(1,020.4)	\$ 102.3
Income (loss) per share before cumulative effect of change in accounting principle:			
Basic	\$	(5.67)	\$ 0.57
Diluted	\$	(5.67)	\$ [ ]
Weighted average number of common shares outstanding:			
Basic		180.1	181.0
Diluted		180.1	[ ]

**Blockbuster Inc.****Unaudited Pro Forma Consolidated Condensed Balance Sheet Data**

(in millions)

	At	
	March 31, 2004	
Total assets	\$	4,799.3
Long-term debt, including capital lease obligations	\$	1,108.8
Total stockholders' equity	\$	2,462.9

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**RISK FACTORS**

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

The risk factors have been separated into three groups:

risks that relate to Viacom's business;

risks that relate to Blockbuster's business; and

risks that relate to this exchange offer.

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

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

In addition, for a discussion of additional uncertainties associated with (1) Viacom's and Blockbuster's businesses and (2) forward-looking statements in this document, see the section entitled "Cautionary Statement Concerning Forward-Looking Statements" on page 48.

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

**Risk Factors Relating to Viacom's Business**

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

Viacom derives substantial revenues from the sale of advertising on its over-the-air networks, basic cable networks, television stations, radio stations and outdoor businesses (and, if Viacom completes this exchange offer, advertising revenues will constitute an even higher percentage of Viacom's total revenues than they

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currently do). The sale of advertising is affected by viewer demographics, viewer ratings and market conditions for advertising. Adverse changes to any of these factors, including as a result of acts of terrorism or war, could have a negative effect on revenues.

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

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

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

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

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

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

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

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





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

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

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

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

### **Viacom Has Contingent Liabilities Related to Discontinued Businesses**

Viacom has contingent liabilities related to discontinued businesses, including environmental liabilities, liabilities related to illnesses of former employees, asbestos liabilities and other pending and threatened litigation. While the pending or threatened litigations and environmental and other liabilities should not have a material adverse effect on Viacom, there can be no assurance in this regard. Viacom will also have certain liabilities in connection with the divestiture of Blockbuster, including under the IPO agreement, the amended and restated release and indemnification agreement and the amended and restated tax matters agreement, each of which is further described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster" beginning on page 91.

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

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

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

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

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

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

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

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

### **Labor Difficulties Could Adversely Impact Viacom's Operations**

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

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

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

### **Risk Factors Relating to Blockbuster's Business**

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

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

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

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Blockbuster cannot assure you that consumers will not, as a result of further decreases in studio sell-through pricing and/or sustained or further depressed pricing by competitors, increasingly desire to purchase rather than rent movies. Personal DVD libraries could also cause consumers to rent or purchase fewer

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movies in the future. Blockbuster's profitability could, therefore, be negatively affected if, in light of any such consumer behavior, Blockbuster was unable to (i) grow its rental business, (ii) replace gross profits from generally higher-margin rentals with gross profits from increased sales of generally lower-margin sell-through product, or (iii) otherwise positively affect gross profits, such as through price increases or cost reductions. Blockbuster's ability to achieve one or more of these objectives is subject to risks, including the risk that Blockbuster may not be able to compete effectively with other DVD retailers, some of whom may have competitive advantages such as the pricing flexibility described above or favorable consumer perceptions regarding value.

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

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

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

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

Blockbuster's business could be negatively affected if:

the home video retailer distribution windows were no longer the first following the theatrical release;

the length of the home video retailer distribution windows were shortened; or

the home video retailer distribution windows were no longer as exclusive as they are now;

because newly released movies would be made available earlier on these other forms of non-theatrical movie distribution. As a result, consumers would no longer need to wait until after the home video retailer distribution window to view a newly released movie on these other distribution channels. According to industry statistics, more movies are now being released to pay-per-view at the shorter end of the distribution window

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range than at the longer end. In addition, many of the major movie studios have entered into various ventures to provide video-on-demand or similar services of their own. Increased studio participation in or support of these types of services could impact their decisions with respect to the timing and exclusivity of the home video retailer distribution window.

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

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

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

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

consumer desire to own the particular movie or game;

the amount of previously rented product or traded product available for sale by others to the public; and

changes in the price of retail product by the studios or changes by other retailers, particularly the mass merchants mentioned above.

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

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

Blockbuster's purchasing decisions are influenced by many factors, including predictions of consumer demand, gross margin considerations and supplier product return policies. While much of Blockbuster's retail movie product in the United States, but not internationally, is returnable to vendors, the increased investment in inventory necessary to capitalize on the growing retail market increases Blockbuster's exposure to excess inventories in the event anticipated sales fail to materialize. In addition, returns of Blockbuster's games inventory, which is prone to obsolescence risks because of the nature of the industry, are subject to negotiation with vendors. The prevalence of multiple game platforms may make it more difficult for Blockbuster to accurately predict consumer demand with respect to video games. The nature of and market for Blockbuster's products, particularly games and DVDs, also makes them prone to risk of theft and loss. Blockbuster's operating results could suffer if it is not able to:

obtain or maintain favorable terms from its suppliers with respect to such matters as product returns;



maintain adequate copy depth to maintain customer satisfaction;

control shrinkage resulting from theft or loss; or

avoid significant inventory excesses that could force Blockbuster to sell products at a discount or loss.

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

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

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

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

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

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

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

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

**The widespread availability of additional channels on satellite and digital cable systems may significantly reduce public demand for Blockbuster's products.** Advances in direct broadcast satellite and cable technologies may adversely affect public demand for video store rentals. If direct broadcast satellite and digital cable were to become more widely available and accepted, this could cause a smaller number of movies to be rented if viewers were to favor the expanded number of conventional channels and expanded content, including movies, specialty programming and sporting events, offered through these services. If this were to occur, it could have a negative effect on Blockbuster's video

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store business. Direct broadcast satellite providers transmit numerous channels of programs by satellite transmission into subscribers' homes. In addition, cable providers are taking advantage of digital technology to transmit many additional channels of television programs over cable lines to subscribers' homes.

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

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

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

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

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

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

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

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

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

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*Disposable DVDs; personal video recorders.* The technology exists for retailers to offer disposable DVDs, which would allow a consumer to view a DVD for an unlimited number of times during a specified period of time, at the end of which the DVD becomes unplayable as a result of chemistry technology. Another technology that could have an effect on Blockbuster's video store business is the personal video recorder. A personal video recorder allows consumers to automatically and digitally record programs to create a customized television line-

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up for viewing at any time. This technology also enables consumers to pause, rewind, instant replay and playback in slow motion any live television broadcast. This technology is also increasingly being used to download movies in a form known as Subscriber Video on Demand. Blockbuster cannot predict the impact that these technologies will have on its business.

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

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

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

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

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

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

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

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Blockbuster expects to open company-operated stores in markets where it already has significant operations in order to maximize its market share within these markets. Although Blockbuster has a store development

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approach that is designed to minimize the effect of newly opened stores on pre-existing stores, Blockbuster cannot assure you that these newly opened stores will not adversely affect the revenues and profitability of those pre-existing stores in any given market.

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

In October 1998, about 380 BLOCKBUSTER MUSIC stores were sold to Wherehouse Entertainment Inc., which is referred to in this Prospectus-Offer to Exchange as Wherehouse. Some of the leases transferred in connection with this sale had previously been guaranteed either by Viacom or its affiliates. In connection with Blockbuster's initial public offering, Blockbuster entered into an Initial Public Offering and Split-Off Agreement with Viacom, pursuant to which Blockbuster agreed to indemnify Viacom with respect to any amount paid under these guarantees. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91. On January 21, 2003, Wherehouse filed a petition for protection under Chapter 11 of U.S. bankruptcy law. Based on information regarding lease and guarantee expirations originally available in connection with the Wherehouse bankruptcy, Blockbuster estimated that it was contingently liable for approximately \$36.0 million. Of this amount, Blockbuster recorded a reserve of \$18.7 million during the fourth quarter of 2002, which represented Blockbuster's estimate of the lease guarantee obligation at that time. During 2003, Blockbuster paid approximately \$8.2 million associated with the lease guarantee obligation. In addition, during the fourth quarter of 2003, based upon Blockbuster's most current information regarding the bankruptcy proceedings, Blockbuster reduced its reserve by \$2.6 million, resulting in a remaining reserve balance of \$7.9 million at March 31, 2004. Any payments Blockbuster is required to make under the guarantees in excess of its recorded reserve would negatively affect Blockbuster's results of operations.

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

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

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

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

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



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

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

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

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

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

### **Any Acquisitions Blockbuster Makes Involve a Degree of Risk**

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

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

Blockbuster will incur additional debt of \$950 million under its new credit agreement in order to pay the special distribution to its stockholders and to finance transaction costs and expenses in connection with the split-off and the special distribution. As of March 31, 2004, on a pro forma basis after giving effect to the special distribution and the borrowings under the new credit agreement, Blockbuster would have had total debt of approximately \$1,108.8 million, or approximately [ ]% of Blockbuster's total capitalization. In addition, Blockbuster would have the \$150 million letter of credit provided by Blockbuster to support Viacom's potential liabilities for certain lease obligations of Blockbuster and other letters of credit issued in the ordinary course of business. See the section entitled "Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on page 84. Blockbuster's debt service obligations with respect to this new debt will have an adverse impact on its earnings and cash flow for as long as the indebtedness is outstanding. This adverse effect on earnings and cash flow could negatively impact Blockbuster's stock price.

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

Blockbuster must dedicate a substantial portion of its cash flows from operations to the payment of its indebtedness, reducing the funds available for future working capital requirements, capital expenditures, acquisitions or other general corporate requirements;

some of Blockbuster's borrowings are, and will continue to be, at variable rates of interest, which may result in higher interest expense in the event of increases in interest rates;

Blockbuster may be more highly leveraged than some of its competitors, which could place it at a competitive disadvantage;

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

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

Based upon current levels of operations and anticipated growth, Blockbuster expects to be able to generate sufficient cash flow to make all of the principal and interest payments when such payments are due under Blockbuster's new credit agreement, but there can be no assurance that Blockbuster will be able to repay such borrowings. See the section entitled "Description of Other Material Agreements - New Blockbuster Credit Agreement" beginning on page 134.

**The Terms of Blockbuster's New Credit Agreement Will Impose Many Restrictions on Blockbuster. A Failure by Blockbuster to Comply With Any of These Restrictions Could Result in an Event of Default Under the New Credit Agreement**

The terms of Blockbuster's new credit agreement will contain a number of restrictive covenants that will impose significant operating and financial restrictions on Blockbuster, including restrictions on its ability to, among other things:

repurchase or redeem capital stock or subordinated indebtedness;

pay dividends or make distributions to stockholders;

incur or guarantee additional indebtedness;

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create liens;

make investments; and

merge or consolidate with other companies or transfer all or substantially all of its assets.

Blockbuster's new credit agreement will require it to maintain certain financial ratios, some of which may become more restrictive over time. As a result of these covenants and ratios, Blockbuster will be limited in the manner in which it can conduct its business, and may be unable to engage in favorable business activities or finance future operations or capital needs. Accordingly, these restrictions may limit Blockbuster's ability to successfully operate its business.

A failure to comply with the covenants or financial ratios contained in Blockbuster's new credit agreement could lead to an event of default. In the event of any default under Blockbuster's new credit agreement, the lenders thereunder will not be required to lend any additional amounts to Blockbuster and could elect to declare all outstanding borrowings, together with accrued and unpaid interest and fees, to be due and payable, and require Blockbuster to apply all of its available cash to repay these borrowings. An acceleration of indebtedness under the new credit agreement would also likely result in an event of default under the terms of any other financing arrangement Blockbuster had outstanding at such time. If any or all of Blockbuster's debt were to be accelerated, there can be no assurance that Blockbuster's assets would be sufficient to repay such indebtedness in full. See the section entitled "Description of Other Material Agreements - New Blockbuster Credit Agreement" beginning on page 134.

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

The IPO agreement imposes various restrictions and limitations on Blockbuster's ability to renew or modify, in a manner that increases Viacom's potential liability, a subset of the leases guaranteed by Viacom, which could make it more difficult and expensive, and in some cases impossible, to renew or modify certain of these leases. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Relationships Between Viacom and Blockbuster - Initial Public Offering and Split-Off Agreement" beginning on page 91.

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

Pursuant to the IPO agreement, Blockbuster is obligated to provide at the date of payment of the special distribution a \$150 million letter of credit for the benefit of Viacom to support Viacom's potential liability for certain real estate lease obligations of Blockbuster. Such letter of credit is referred to in this Prospectus-Offer to Exchange as the "Viacom letter of credit." The Viacom letter of credit will reduce Blockbuster's borrowing capacity under the terms of its new credit agreement by \$150 million. Until the Viacom letter of credit or any renewal thereof is terminated, Blockbuster anticipates any future or additional lenders may treat Blockbuster's letter of credit obligation as if it were outstanding indebtedness when assessing Blockbuster's borrowing capacity. Furthermore, if Blockbuster is unable to renew or otherwise replace the Viacom letter of credit prior to its expiration as required by the IPO agreement, Viacom has the right to draw down the full amount of the Viacom letter of credit, which would cause Blockbuster to borrow funds under its new credit agreement to reimburse the letter of credit bank. In either case, any resulting reduction in borrowing capacity could restrict or prevent Blockbuster from being able to borrow amounts necessary to engage in favorable business activities, consummate strategic acquisitions or otherwise fund capital needs. See the sections entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Relationships Between Viacom and Blockbuster - Initial Public Offering and Split-Off Agreement" and "Description of Other Material Agreements - New Blockbuster Credit Agreement" beginning on pages 91 and 134, respectively.



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

Blockbuster's performance depends largely on the efforts and abilities of its members of senior management. These executives have substantial experience and expertise in Blockbuster's business and have made significant contributions to its growth and success. The unexpected loss of services of one or more of these individuals could have an adverse effect on Blockbuster's business. Blockbuster will need to attract and retain additional qualified personnel and develop, train and manage an increasing number of management-level employees. Blockbuster cannot assure you that it will be able to attract and retain personnel as needed in the future. See the section entitled "Interests of Certain Persons - Blockbuster Employment Arrangements" beginning on page 107.

### **Risk Factors Relating to this Exchange Offer**

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

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

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

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

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

If you remain a stockholder of Viacom following the completion of this exchange offer and Viacom completes the spin-off described under the section entitled "Spin-Off and Dispositions of Blockbuster Common Stock" on page 68, you will receive shares of Blockbuster common stock (and cash in lieu of fractional shares). As a result, your investment will be subject to the risks associated with both Viacom and Blockbuster.

Whether or not you tender your shares of Viacom class A or class B common stock, the shares you hold after the completion of this exchange offer will be in a company that is different from the company in which you held shares before the completion of this exchange offer. See the sections entitled "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" and "Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on pages 76 and 84, respectively.

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

As a Viacom subsidiary, Blockbuster has had access to Viacom's financial strength and extensive network of business relationships with companies around the world. Blockbuster has drawn on this resource in developing



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its own relationships and contacts and in participating in Viacom's relationships with third parties. After the completion of this exchange offer, Blockbuster will be an independent company and will no longer be able to benefit from Viacom's financial strength and resources to the same extent that it could as a majority-owned subsidiary of Viacom.

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

Prior to Blockbuster's initial public offering, Viacom and Blockbuster entered into a number of agreements whereby Viacom agreed to provide certain services to Blockbuster. In connection with this exchange offer, Viacom and Blockbuster have amended these agreements. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster" beginning on page 91 for a description of these agreements. Pursuant to the amended and restated transition services agreement, Viacom will no longer provide certain of these services as of the completion of this exchange offer and no longer provide certain other services as of 90 days following the completion of this exchange offer. Blockbuster cannot assure you that it will be able to obtain replacement services on acceptable terms, if at all, once these services are no longer provided by Viacom.

### **Change of Control Provisions in Blockbuster Contracts Could Adversely Impact Blockbuster**

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

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

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

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

There is currently no trading market for Blockbuster class B common stock, and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. Blockbuster class A common stock is currently listed on the New York Stock Exchange under the symbol "BBI." Blockbuster intends to apply for listing of the Blockbuster class B common stock on the New York Stock Exchange. Viacom and Blockbuster cannot predict the prices at which the Blockbuster class A or class B common stock will trade after this exchange offer. The exchange ratio has been determined after discussions with Bear Stearns and Goldman Sachs, the co-dealer managers and Viacom's financial advisors for this exchange offer, and may not bear any relationship to the market price at which the Blockbuster class A or class B common stock will trade after this exchange offer. See the section entitled "The Exchange Offer Terms of this Exchange Offer" beginning on page 56 for a discussion of the factors that were considered in determining the exchange ratio in this exchange offer.



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

Prior to the split-off, Blockbuster was a majority-owned subsidiary of Viacom and only approximately 37.1 million shares of Blockbuster class A common stock (or 20.5% of the total equity value of Blockbuster) were publicly traded. In addition to offering [ ] million shares of Blockbuster class B common stock and [ ] million shares of converted class A common stock in this exchange offer, Viacom intends to dispose of approximately 3.6 million shares of Blockbuster class A common stock it acquired through open market purchases in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom currently intends to contribute all of these shares to the Viacom Pension Plan and the CBS Combined Pension Plan. Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan and the CBS Combined Pension Plan. Following this exchange offer and any such resales, assuming this exchange offer is fully subscribed, 100% of the total equity of Blockbuster will be publicly traded. The distribution of such a large number of shares of Blockbuster class A common stock and Blockbuster class B common stock could adversely affect the market prices of Blockbuster class A and class B common stock. In addition, prior performance of Blockbuster's class A common stock may not be indicative of the performance of Blockbuster's common stock after this exchange offer.

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

The differential in the voting rights of Blockbuster class A and class B common stock could adversely affect the price of the Blockbuster class A common stock to the extent that investors or any potential future purchaser of Blockbuster common stock ascribe value to the superior voting rights of the Blockbuster class B common stock. The holders of Blockbuster class A and class B common stock generally have identical rights except that holders of Blockbuster class A common stock are entitled to one vote per share while holders of Blockbuster class B common stock are currently entitled to five votes per share. After completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Holders of Blockbuster class A and class B common stock are entitled to separate class votes on amendments to Blockbuster's certificate of incorporation that would alter or adversely affect the powers, preferences or special rights of the shares of their respective classes. In addition, it is possible that differences in the liquidity between the two classes may develop, which could result in price differences.

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

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

actual or anticipated fluctuations in Blockbuster's operating results;

changes in expectations as to Blockbuster's future financial performance or changes in financial estimates of securities analysts;

success of Blockbuster's operating and growth strategies;

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investor anticipation of strategic and technological threats, whether or not warranted by actual events;

operating and stock price performance of other comparable companies; and

realization of any of the risks described in these risk factors.

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

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

The existence of some provisions in Blockbuster's corporate documents and Delaware law may delay or prevent a change in control of Blockbuster, which could adversely affect the price of Blockbuster class A and class B common stock. Blockbuster's certificate of incorporation and Blockbuster's bylaws contain some provisions that may make the acquisition of control of Blockbuster more difficult, including provisions relating to the nomination, election and removal of directors, the structure of the board of directors and limitations on actions by Blockbuster stockholders. In addition, Delaware law also imposes some restrictions on mergers and other business combinations between Blockbuster and any holder of 15% or more of its outstanding class A or class B common stock. See the sections entitled "Description of Capital Stock of Blockbuster" and "Comparison of Stockholder Rights" beginning on pages 120 and 128, respectively, for a summary of these anti-takeover provisions.

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

Viacom and Blockbuster have entered into an amended and restated tax matters agreement, which requires, among other things, that, until two years after the completion of this exchange offer or, if applicable, the spin-off, Blockbuster cannot voluntarily enter into certain transactions, including certain merger transactions or transactions involving the sale of a significant amount of its capital stock or assets, without Viacom's consent. In addition, Blockbuster has agreed under this tax matters agreement to indemnify Viacom for any tax liability incurred as a result of the failure of this exchange offer and, if applicable, the spin-off to qualify as a tax-free transaction due to a takeover of Blockbuster or any other transaction involving Blockbuster's capital stock, assets or businesses, regardless of whether such transaction is within Blockbuster's control. Blockbuster may not, however, have adequate funds to perform these indemnification obligations. These restrictions and potential liabilities may make Blockbuster less attractive to a potential acquiror and reduce the possibility that an acquiror will propose or seek to effect certain transactions with Blockbuster during the restricted two-year period. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Tax Matters Agreement" beginning on page 100.

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

Investors may purchase shares of Viacom class A or class B common stock in order to participate in this exchange offer, which may have the effect of artificially raising market prices for shares of Viacom class A or class B common stock during the pendency of this exchange offer. Following the completion of this exchange offer, the market prices for shares of Viacom class A or class B common stock may decline because

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any exchange offer-related demand for shares of Viacom class A or class B common stock will cease. Furthermore, persons who were unable to exchange their shares of Viacom class A or class B common stock for any reason, including proration, may seek to sell these shares in the market, which may also adversely affect the market price

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for Viacom class A or class B common stock. Market prices for shares of Viacom class A or class B common stock may also decline following the completion of this exchange offer and any subsequent spin-off because shares of Viacom class A or class B common stock will no longer include an investment in the Blockbuster business.

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

Shares of Viacom class A and class B common stock and Blockbuster class A common stock are traded on the New York Stock Exchange. On June 17, 2004, the last New York Stock Exchange trading day before the date of the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing prices for Viacom class A common stock, Viacom class B common stock and Blockbuster class A common stock were \$37.21, \$36.66 and \$15.39, respectively. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing prices for Viacom class A common stock, Viacom class B common stock and Blockbuster class A common stock were \$[ ], \$[ ] and \$[ ], respectively. Following the completion of this exchange offer, subject to authorization by the New York Stock Exchange, Blockbuster expects that the shares of Blockbuster class B common stock will be listed on the New York Stock Exchange, but there is currently no trading market for Blockbuster class B common stock and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. In addition, neither Viacom nor Blockbuster can predict the prices at which Blockbuster class A or class B common stock will trade after this exchange offer. Whether Viacom stockholders participating in this exchange offer will receive a premium for their shares of Viacom common stock will depend on the prices for shares of Viacom class A or class B common stock and Blockbuster class A common stock at the expiration date of this exchange offer. Since the market price for shares of Viacom class A and class B common stock and Blockbuster class A common stock fluctuates, Viacom cannot predict the prices at which shares of Viacom class A or class B common stock or Blockbuster class A common stock will be trading at the expiration date of this exchange offer, and therefore Viacom cannot predict whether stockholders who participate in this exchange offer will receive a premium for their shares of Viacom class A or class B common stock or, if they do, the amount of such premium.

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

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

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This Prospectus-Offer to Exchange and the documents incorporated by reference into this document contain both historical and forward-looking statements. These forward-looking statements are not based on historical facts, but rather reflect Viacom's and Blockbuster's current expectations concerning future results and events. Forward-looking statements generally can be identified by the use of statements that include words such as believe, expect, anticipate, intend, plan, foresee, likely, will or other similar words or phrases. Similarly, statements concerning the special distribution or borrowings by Blockbuster pursuant to the new credit agreement, this exchange offer or agreements or arrangements relating to any of such matters or that describe Viacom's or Blockbuster's objectives, plans or goals are or may be forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause Viacom's or Blockbuster's actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. There may be additional risks, uncertainties and factors that Viacom and Blockbuster do not currently view as material or that are not necessarily known. Viacom and Blockbuster cannot make any assurance that projected results or events will be achieved. The risk factors set forth above in the section entitled Risk Factors beginning on page 30, and the matters discussed in the Disclosure Regarding Forward-Looking Information sections of Blockbuster's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which reports are included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively, and the matters discussed in the Cautionary Statement Concerning Forward-Looking Statements sections of Viacom's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Viacom's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which reports are incorporated by reference in this Prospectus-Offer to Exchange, among others, could affect future results, causing these results to differ materially from those expressed in Viacom's and Blockbuster's forward-looking statements.

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

See the sections entitled Risk Factors and Where You Can Find More Information About Viacom and Blockbuster beginning on pages 30 and 139, respectively.



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**RECENT DEVELOPMENTS**

**New Viacom Co-Presidents and Co-Chief Operating Officers; New Blockbuster Director**

On June 1, 2004, Viacom's board of directors announced that Tom Freston and Leslie Moonves had been appointed co-presidents and co-chief operating officers of Viacom, succeeding Mel Karmazin, who resigned as president and chief operating officer and as a director of Viacom and Blockbuster. Effective as of June 2, 2004, Michael D. Fricklas, executive vice president, general counsel and secretary of Viacom, was elected by Blockbuster's board of directors to fill the vacancy on Blockbuster's board of directors resulting from Mr. Karmazin's resignation.

**Blockbuster Credit Arrangements**

On [ ], 2004, Blockbuster paid a special cash distribution of \$5.00 per share (approximately \$905 million in aggregate) to its stockholders of record on [ ], 2004. Blockbuster funded the special distribution through borrowings under its new credit agreement. See the section entitled "Description of Other Material Agreements - New Blockbuster Credit Agreement" beginning on page 134.

**Stock Option Adjustment**

In connection with the special distribution, on [ ], 2004, Blockbuster adjusted its outstanding stock options which allow employees and directors to purchase shares of Blockbuster class A common stock. See the section entitled "Blockbuster Stock Option Matters" beginning on page 69.

**Dismissal of Securities Lawsuit Against Blockbuster**

In a lawsuit filed in 2003 and styled *In re Blockbuster Inc. Securities Litigation*, Blockbuster and certain directors and officers of Blockbuster were named as defendants. The consolidated amended complaint claimed violations of Section 10(b), Section 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934 for the time period between February 12, 2002 and December 17, 2002. The consolidated amended complaint generally alleged that the defendants made untrue statements of material fact and/or omitted to disclose material facts about the business and operations of Blockbuster. It also alleged that the value of Blockbuster's common stock was therefore artificially inflated and that certain of the individual defendants sold shares of Blockbuster's common stock at inflated prices. The plaintiffs sought unspecified compensatory damages. Blockbuster's motion to dismiss was granted by the federal court and the consolidated amended complaint was dismissed in its entirety, partially with prejudice and partially without prejudice, by Memorandum Opinion and Order dated April 26, 2004. In analyzing the claims asserted, the court ruled that plaintiffs' claims of nondisclosure were factually unsupported and deficient as a matter of law. To the extent the court did not dismiss plaintiffs' claims with prejudice, the court gave plaintiffs the opportunity to replead certain claims. The plaintiffs did not file any amended complaint and, on June 2, 2004, the court entered a final judgment in favor of Blockbuster and dismissed all claims with prejudice.

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**THE TRANSACTION**

**Background of this Exchange Offer**

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

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

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

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

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

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

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

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Beginning in February 2004, Viacom, Blockbuster, the Blockbuster special committee and their respective legal and financial advisors evaluated and discussed possible terms on which Blockbuster could be separated from Viacom other than through a potential sale, including pursuant to an exchange offer similar to the one described in this Prospectus-Offer to Exchange. The parties considered the potential tax treatment of such a transaction, as well as the impact thereof on Blockbuster's public stockholders, on Blockbuster's business and financial flexibility, on Blockbuster's ability to attract and retain qualified employees and on Viacom's financial objectives. The parties considered and evaluated alternatives with respect to, among other things, the new credit agreement to be entered into by Blockbuster, the aggregate amount of the special distribution, the amount of Blockbuster class B common stock that would be converted to Blockbuster class A common stock, the voting power of Blockbuster's class B common stock following a transaction, other proposed changes to Blockbuster's certificate of incorporation and bylaws, the continuation of Viacom's guarantees of or other credit support to certain Blockbuster leases and potential modifications to other arrangements between Blockbuster and Viacom, including the agreements entered into between Viacom and Blockbuster in connection with Blockbuster's initial public offering in August 1999 and a then-contemplated split-off, which are referred to in this Prospectus-Offer to Exchange as the separation agreements. Throughout this period, the Blockbuster special committee met on numerous occasions with its financial and legal advisors to consider and review the proposed terms of the transaction. In March 2004, Viacom also retained Goldman Sachs as its co-financial advisor, and Blockbuster retained Credit Suisse First Boston LLC to act as its financial advisor. In June 2004, Blockbuster also retained J.P. Morgan Securities Inc. to act as its co-financial advisor.

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

On June 16, 2004, Blockbuster entered into a commitment letter with respect to Blockbuster's new \$1.45 billion credit agreement with a syndicate of lenders.

On June 17, 2004, a committee of Viacom's board of directors delegated with the authority to approve the final form of the divestiture of Blockbuster from Viacom approved the divestiture by means of the split-off contemplated by this Prospectus-Offer to Exchange. The committee also approved Viacom's entry into the various separation agreements described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions" beginning on page 91.

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

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

On [            ], 2004, Blockbuster entered into the new credit agreement.



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On [ ], 2004, the Blockbuster special committee made a further recommendation regarding the payment of a special distribution, and following such recommendation, the Blockbuster board of directors approved a special distribution of \$5.00 per share (approximately \$905 million in the aggregate) to the holders of its class A and class B common stock. On [ ], 2004, this special distribution was paid to holders of record of Blockbuster class A and class B common stock as of [ ], 2004.

### **Reasons for this Exchange Offer**

Blockbuster and Viacom have separate objectives. Viacom's divestiture of Blockbuster is intended to establish each company as an independent entity with the ability to pursue those separate objectives. Each company believes that the split-off will provide numerous corporate benefits to itself and the other, the most important of which are listed below.

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

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

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

### **Effects of this Exchange Offer**

Upon completion of this exchange offer and any subsequent spin-off, Viacom's financial statements will no longer reflect the assets, liabilities, results of operations or cash flows attributable to Blockbuster. As a result, Blockbuster's results will no longer be consolidated with those of Viacom for financial reporting purposes. Revenues and operating income attributable to Blockbuster's operations represented approximately 22% and 11% of Viacom's consolidated revenues and operating income, respectively, for the period ended March 31, 2004. See the sections entitled "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on page 76, and "Risk Factors Risk Factors Relating to Viacom's Business Adverse Changes to Factors Affecting Advertising Sales Could Have a Negative Effect on Viacom's Revenues" on page 30.

You will be affected by this exchange offer as follows:

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Holders who exchange all of their shares of Viacom common stock, if this exchange offer is fully subscribed, will no longer have any ownership interest in Viacom and will have a new direct ownership

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interest in Blockbuster. As a result, your investment will be subject exclusively to risks associated with Blockbuster and not risks associated with Viacom.

Holders who exchange some, but not all, of their shares of Viacom common stock regardless of whether this exchange offer is fully subscribed will, absent the acquisition of Viacom class A or class B common stock independent of this exchange offer, own fewer shares of Viacom common stock and more shares of Blockbuster common stock. As a result, your investment will be subject to risks associated with both Viacom and Blockbuster.

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

Holders who remain stockholders of Viacom following the completion of this exchange offer will, if this exchange offer is not fully subscribed and if Viacom completes a spin-off, receive shares of Blockbuster common stock (and cash in lieu of fractional shares). As a result, your investment will be subject to risks associated with both Viacom and Blockbuster.

Persons who remain Viacom stockholders after the completion of this exchange offer and the disposition of the remaining shares of Blockbuster class A and class B common stock Viacom owns will own shares in a company that no longer owns any portion of the Blockbuster business.

## **Participation by National Amusements**

National Amusements, the controlling stockholder of Viacom, will not participate in this exchange offer. As of May 21, 2004, National Amusements beneficially owned shares of Viacom class A common stock representing approximately 71% of the voting power of all classes of Viacom stock, and approximately 11% of Viacom class A and class B common stock on a combined basis. Mr. Sumner M. Redstone, the controlling stockholder of National Amusements, is the chairman of the board and chief executive officer of Viacom. This decision not to participate in this exchange offer is consistent with the fact that National Amusements has never sold or otherwise disposed of its holdings in Viacom. Mr. Redstone is committed to focusing his managerial and financial resources on developing and growing the core businesses of Viacom.

## **Blockbuster Equity Capitalization Following this Exchange Offer**

Viacom has agreed to convert [ ] shares of Blockbuster class B common stock on a one-for-one basis into shares of Blockbuster class A common stock and offer both classes of stock in this exchange offer such that, following the completion of this exchange offer, Blockbuster will have an equity capitalization that consists of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock. Viacom's conversion of Blockbuster class B common stock to Blockbuster class A common stock is governed by the IPO agreement. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91.

## **Blockbuster Charter and Bylaw Amendments**



Subsequent to the recommendation of the Blockbuster special committee, Blockbuster's board of directors recommended that its stockholders approve certain amendments to its certificate of incorporation and Blockbuster's stockholders approved these amendments at Blockbuster's 2004 annual meeting. The Blockbuster

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charter amendments will be filed and become effective immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. The Blockbuster charter amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. The Blockbuster charter amendments also remove provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. Blockbuster's board of directors is also amending its bylaws to remove the provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. For a more complete description of the Blockbuster charter amendments and the amendments to Blockbuster's bylaws, see the sections entitled "Description of Capital Stock of Blockbuster" and "Comparison of Stockholder Rights" beginning on pages 120 and 128, respectively.

## **Blockbuster Director Resignations**

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

## **No Appraisal Rights**

Appraisal is a statutory remedy available to corporate stockholders who object to extraordinary actions taken by their corporation. This remedy allows dissenting stockholders to require the corporation to repurchase their stock at a price equivalent to its value immediately prior to the extraordinary corporate action. No appraisal rights are available to Viacom stockholders or Blockbuster stockholders in connection with this exchange offer.

## **Litigation Relating to this Exchange Offer**

On February 10, 2004, a Blockbuster stockholder filed a lawsuit in the Court of Chancery of the State of Delaware against Viacom, Blockbuster and the members of Blockbuster's board of directors. The lawsuit, which is captioned *Vogel v. Bressler, et al.*, C.A. No. 226-N, purports to be brought on behalf of all stockholders of Blockbuster except the defendants and any persons or entities related to or affiliated with the defendants. Plaintiff alleges that the individual defendants and Viacom owe a duty to the public stockholders of Blockbuster not to favor their own interests at the expense of Blockbuster and its stockholders. Plaintiff alleges that the Blockbuster directors have breached their fiduciary duty to the public stockholders of Blockbuster by proposing a transaction that will flood the market for publicly traded Blockbuster shares and have a dilutive effect on the Blockbuster shares held by the existing minority stockholders. Plaintiff's complaint seeks a judgment (1) enjoining the



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proposed transaction and, if the transaction is consummated, rescinding the transaction; (2) awarding plaintiff and the class compensatory damages and/or rescissory damages; and (3) awarding plaintiff the costs and disbursements of the action, including attorneys' and experts' fees. Plaintiff's counsel has agreed that defendants are not required to respond or move with respect to the pending complaint. This agreement is without prejudice to plaintiff's right to amend the complaint and to seek to expedite proceedings on the amended complaint.

## **Regulatory Approval**

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

Apart from the registration of shares of Blockbuster class A and class B common stock offered in this exchange offer under federal and state securities laws and Viacom's filing of a Schedule TO with the Securities and Exchange Commission, which is referred to in this Prospectus-Offer to Exchange as the "SEC", Viacom does not believe that any other material U.S. federal or state regulatory filings or approvals will be necessary to consummate this exchange offer and any spin-off.

## **Accounting Treatment**

The shares of Viacom class A and class B common stock received by Viacom pursuant to this exchange offer will be recorded as an acquisition of treasury stock at a cost equal to the market value of the Viacom shares accepted in this exchange offer at the expiration of this exchange offer. Any excess of the net book value of Viacom's investment in Blockbuster class B common stock over the market value of the shares of Viacom common stock acquired at that date will be recognized by Viacom as a loss on the disposal of the Blockbuster class B common stock after adding direct and incremental expenses of this exchange offer. Depending on the market value and the number of shares of Viacom common stock acquired in this exchange offer, the loss on the disposal may be significant. For example, if shares of Viacom class B common stock have a market value on the expiration date equal to the closing price of the Viacom class B common stock on [ ], 2004 (\$[ ]) and [ ] shares of Viacom class A and class B common stock are exchanged for 144,000,000 shares of Blockbuster class A and class B common stock in the aggregate, Viacom estimates that it would realize a loss of approximately \$[ ] million. Assuming that [ ] shares of Viacom class A and class B common stock are exchanged for 144,000,000 shares of Blockbuster class A and class B common stock in the aggregate the actual loss will vary by approximately \$[ ] million for each \$1.00 change in the per share market value of the shares of Viacom class B common stock on the expiration date of this exchange offer.

Viacom intends to account for the disposal of its investment in Blockbuster as a discontinued operation for financial statement purposes. Interpretive guidance of authoritative accounting literature relating to discontinued operations is pending and could impact Viacom's proposed treatment.

## **Tax Treatment**

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See the section entitled U.S. Federal Income Tax Consequences beginning on page 105.

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**THE EXCHANGE OFFER**

**Terms of this Exchange Offer**

Viacom is offering to exchange up to [ ] shares of Blockbuster class B common stock and [ ] shares of converted class A common stock for the outstanding shares of Viacom class A or class B common stock validly tendered and not properly withdrawn, on the terms and conditions and subject to the limitations described below and in the related letter of transmittal and instruction booklet thereto, by 12:00 midnight, New York City time, on [ ], 2004. The last day on which tenders will be accepted, whether on [ ], 2004 or any later date to which this exchange offer is extended, is referred to in this Prospectus-Offer to Exchange as the expiration date. You may tender all, some or none of your shares of Viacom class A or class B common stock.

If your shares of Viacom class A or class B common stock are held in a Viacom or Blockbuster employee benefit plan, you will have an earlier deadline for directing the trustee of the plan whether to tender shares held in your plan account. This earlier date will allow the trustees or administrators sufficient time to process the tender instructions and submit them to the exchange agent in a timely manner. Please carefully review the instructions being sent to you from the trustees or administrators of the plans to determine the deadline applicable to your shares held in the plans.

Viacom will accept up to [ ] total shares of Viacom class A and class B common stock for exchange. This number of shares multiplied by the exchange ratio equals the [ ] shares of Blockbuster class B common stock and [ ] shares of converted class A common stock held by Viacom. If more than [ ] shares of Viacom class A and class B common stock are validly tendered, the tendered shares will be subject to proration when this exchange offer expires. Viacom's obligation to complete this exchange offer is subject to important conditions that are described in the section entitled "Conditions for Completion of this Exchange Offer" beginning on page 64.

In determining the exchange ratio, Viacom considered, among other things:

recent and historical market prices on the New York Stock Exchange for shares of Viacom class A and class B common stock and Blockbuster class A common stock; and

discussions with the co-dealer managers as to what exchange ratio might induce Viacom stockholders to tender Viacom class A or class B common stock in this exchange offer so that all (or the greatest percentage) of the shares of Blockbuster class B common stock and converted class A common stock that Viacom holds will be distributed.

Viacom is sending this document and related documents to:

persons who directly held shares of either Viacom class A or class B common stock on [ ], 2004, including shares of Viacom common stock held through the Viacom DRP. On that date, there were [ ] shares of Viacom class A common stock outstanding, which were held of record by approximately [ ] stockholders, and [ ] shares of Viacom class B common stock outstanding, which were held of record by approximately [ ] stockholders;

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participants who hold shares of either Viacom class A or class B common stock in a Viacom or Blockbuster employee benefit plan that are eligible to be tendered in this exchange offer under the terms of the plans; and

brokers, banks and similar persons whose names or the names of whose nominees appear on Viacom's stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Viacom class A and class B common stock.

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### **Proration; Tenders for Exchange by Holders of Fewer than 100 Shares of Viacom Class A or Class B Common Stock**

If, as of the expiration of this exchange offer, Viacom stockholders have validly tendered more than [ ] shares of Viacom class A and class B common stock so that more than [ ] shares of Blockbuster class B common stock and [ ] shares of converted class A common stock would be distributed, Viacom will accept on a pro rata basis all shares tendered and not withdrawn, except for tenders of odd-lots, as described below.

Except as otherwise provided in this section, beneficial holders of less than 100 shares of either Viacom class A common stock or Viacom class B common stock who validly tender all of their shares of that class may elect not to be subject to proration if more than [ ] shares of Viacom class A and class B common stock are tendered in this exchange offer. Beneficial holders of 100 or more shares of either Viacom class A common stock or Viacom class B common stock are not eligible for this preference with respect to the class in which they hold 100 or more shares, even if these holders have separate stock certificates representing fewer than 100 shares of that class.

Any beneficial holder of less than 100 shares of either Viacom class A common stock or Viacom class B common stock who wishes to tender all of these shares must complete the box entitled "Odd-Lot Shares" on the letter of transmittal and, if applicable, on the notice of guaranteed delivery. If your odd-lot shares are held by a broker for your account, you can contact your broker and request the preferential treatment.

Viacom will announce the preliminary results of this exchange offer, including the preliminary proration factor, if any, by press release on the first business day after the expiration date. Upon determining the number of shares of Viacom class A and class B common stock validly tendered for exchange, Viacom will announce the final results, including final proration factor, if any, as promptly as practicable after the expiration date.

Any shares of Viacom class A or class B common stock not accepted for exchange in this exchange offer will be reissued to the tendering stockholder.

For purposes of this exchange offer, a "business day" means any day other than a Saturday, Sunday or federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, New York City time.

### **Fractional Shares**

Fractional shares of Blockbuster class A or class B common stock will not be issued in this exchange offer. The exchange agent, acting as agent for the Viacom stockholders otherwise entitled to receive fractional shares of Blockbuster class A or class B common stock, will aggregate all fractional shares and cause them to be sold in the open market for the accounts of these stockholders. The proceeds that the exchange agent may realize from the sale of the fractional shares of Blockbuster class A and class B common stock will be distributed, net of commissions, to each stockholder entitled thereto in accordance with the stockholder's fractional interest. None of Viacom, Blockbuster, the exchange agent or the co-dealer managers will guarantee any minimum proceeds from the sale of fractional shares of Blockbuster class A and class B common stock. **You will not receive any interest on any cash paid to you, even if there is a delay in making the payment.** Generally speaking, a stockholder who receives cash instead of fractional shares of Blockbuster class A or class B common stock will recognize gain or loss on the receipt of the cash to the extent that the cash received exceeds the tax basis that would have been allocated to that stockholder's fractional shares. You are urged to carefully read the discussion in the section entitled "U.S. Federal Income Tax Consequences" beginning on page 105, and to



consult your tax advisor on the consequences to you of this exchange offer.

**Exchange of Shares of Viacom Common Stock**

Upon the terms and subject to the conditions of this exchange offer (including, if this exchange offer is extended or amended, the terms and conditions of the extension or amendment), Viacom will accept for

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exchange, and will exchange, [ ] shares of Blockbuster class B common stock and [ ] shares of converted class A common stock for each share of Viacom class A or class B common stock validly tendered, and not properly withdrawn, prior to the expiration of this exchange offer, as promptly as practicable after the expiration date. Notwithstanding the immediately preceding sentence, subject to applicable rules of the SEC, Viacom expressly reserves the right to delay acceptance for exchange, or the exchange of, shares of Viacom class A or class B common stock in order to comply with any applicable law or obtain any governmental or regulatory approvals.

In all cases, the exchange of shares of Viacom class A or class B common stock tendered and accepted for exchange pursuant to this exchange offer will be made only after timely receipt by the exchange agent of (1) certificates for those shares of Viacom class A or class B common stock (or a confirmation of a book-entry transfer of those shares of Viacom class A or class B common stock in the exchange agent's account at The Depository Trust Company) pursuant to the procedures set forth in the section entitled "Procedures for Tendering" beginning on page 58, (2) a properly completed and duly executed letter of transmittal (or a manually signed facsimile of that document), with any required signature guarantees, or, in the case of a book-entry transfer, an agent's message, and (3) any other required documents.

For purposes of this exchange offer, Viacom will be deemed to have accepted for exchange, and thereby exchanged, shares of Viacom class A or class B common stock validly tendered and not properly withdrawn if and when Viacom notifies the exchange agent of its acceptance of the tenders of those shares of Viacom class A or class B common stock pursuant to this exchange offer. The exchange agent will cause shares of Blockbuster class A and class B common stock to be credited to book-entry accounts maintained by Blockbuster's transfer agent for the benefit of the tendering stockholder in exchange for Viacom shares pursuant to this exchange offer and cash instead of fractional shares of Blockbuster class A and class B common stock as soon as practicable after receipt of Viacom's notice and determination of the final proration factor. The exchange agent will act as agent for tendering stockholders for the purpose of causing the receipt of Blockbuster class A and class B common stock and any cash to be paid to you in lieu of fractional shares of Blockbuster class A and class B common stock. **You will not receive any interest on any cash paid to you, even if there is a delay in making the payment.**

If Viacom does not accept for exchange any tendered Viacom shares for any reason pursuant to the terms and conditions of this exchange offer, the exchange agent will return certificates for such Viacom shares without expense to the tendering stockholder (or, in the case of Viacom shares tendered by book-entry transfer pursuant to the procedures set forth below in the section entitled "The Exchange Offer Procedure for Tendering," such Viacom shares will be credited to an account maintained within The Depository Trust Company), as soon as practicable following expiration or termination of this exchange offer.

### **Procedures for Tendering**

*Shares Held in Certificated Form.* If you hold certificates representing shares of Viacom class A or class B common stock, to validly tender such shares pursuant to this exchange offer, you must, prior to the expiration of this exchange offer, deliver to the exchange agent a properly completed and duly executed letter of transmittal (or a manually executed facsimile of that document), along with any required signature guarantees and any other required documents, and the certificates representing the shares of Viacom class A or class B common stock tendered. The exchange agent's address is listed on the back cover of this Prospectus-Offer to Exchange.

If your certificates are not immediately available, you may still tender your shares by complying with the guaranteed delivery procedures set forth below.

*Shares Held through the Viacom Dividend Reinvestment Plan.* If you hold shares of Viacom class A or class B common stock through the Viacom DRP, to validly tender such shares pursuant to this exchange offer, you must, prior to the expiration of this exchange offer, deliver to the

exchange agent a properly completed and duly

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executed letter of transmittal (or a manually executed facsimile of that document), along with any required signature guarantees and any other required documents. Since certificates are not issued for shares owned pursuant to the Viacom DRP, you do not need to deliver any certificates representing those shares to the exchange agent. The exchange agent's address is listed on the back cover of this Prospectus-Offer to Exchange.

*Shares Held Through a Broker.* If you hold Viacom class A or class B common stock through a broker, you should follow the instructions sent to you separately by your broker. You should not use the letter of transmittal to direct the tender of your shares of Viacom class A or class B common stock. Your broker must notify The Depository Trust Company and cause it to transfer the shares into the exchange agent's account in accordance with The Depository Trust Company's procedures. The broker must also ensure that the exchange agent receives an agent's message from The Depository Trust Company confirming the book-entry transfer of your shares of Viacom class A or class B common stock. A tender by book-entry transfer will be completed upon receipt by the exchange agent of an agent's message, book-entry confirmation from The Depository Trust Company and any other required documents.

The term *agent's message* means a message, transmitted by The Depository Trust Company to, and received by, the exchange agent and forming a part of a book-entry confirmation, which states that The Depository Trust Company has received an express acknowledgment from the participant in The Depository Trust Company tendering the Viacom shares which are the subject of the book-entry confirmation, that the participant has received and agrees to be bound by the terms of the letter of transmittal and the related instruction booklet and that Viacom may enforce that agreement against the participant.

The exchange agent will establish accounts with respect to the shares of Viacom class A and class B common stock at The Depository Trust Company for purposes of this exchange offer within two business days after the date of this Prospectus-Offer to Exchange, and any financial institution that is a participant in The Depository Trust Company may make book-entry delivery of the shares of Viacom class A or class B common stock by causing The Depository Trust Company to transfer such shares into the exchange agent's account at The Depository Trust Company in accordance with The Depository Trust Company's procedure for the transfer. **Delivery of documents to The Depository Trust Company does not constitute delivery to the exchange agent.**

*Shares Held Through Viacom or Blockbuster Employee Benefit Plans.* If you hold Viacom class A or class B common stock as a participant in a Viacom or Blockbuster employee benefit plan, you should follow the instructions sent to you separately by the plan trustees or administrators. You should not use the letter of transmittal to direct the tender of Viacom class A or class B common stock held in these plans. You may direct the plan trustee to tender none, some or all of the Viacom class A or class B common stock in your employee benefit plan account subject to the limitations set forth below.

Participants in the following employee benefit plans may be eligible to participate in this exchange offer:

Viacom 401(k) Plan;

Viacom Employee Savings Plan;

Blockbuster Investment Plan;

Infinity Broadcasting Corporation Union Employees' 401(k) Plan; and

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The Westinghouse Savings Program.

However, you will not be eligible to tender in this exchange offer any of the shares of Viacom class A or class B common stock allocated to your employer matching contribution account in the Viacom 401(k) Plan, the Infinity Broadcasting Corporation Union Employees 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of [ ], 2004.

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*General Instructions.* **Do not send letters of transmittal and certificates for Viacom class A or class B common stock to Viacom, Blockbuster, the co-dealer managers or the information agent.** The letters of transmittal and certificates should be sent to the exchange agent at the address listed on the back cover of this Prospectus-Offer to Exchange. Trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity who sign the letter of transmittal, notice of guaranteed delivery or any certificates or stock powers must indicate the capacity in which they are signing and must submit evidence of their power to act in that capacity unless waived by Viacom.

Whether you tender your shares of Viacom common stock by delivery of certificates, by transfer of Viacom DRP shares or through your broker, the exchange agent must receive the letter of transmittal and the certificates for your shares of Viacom common stock (or, in case of a book-entry transfer, the agent's message and a book-entry confirmation) at one of its addresses set forth on the back cover of this Prospectus-Offer to Exchange prior to the expiration of this exchange offer.

Please note that if you hold shares of Viacom class A and class B common stock in certificated form and/or through the Viacom DRP, you will receive two letters of transmittal together with this Prospectus-Offer to Exchange. One letter of transmittal is to be used to tender your shares of Viacom class A common stock held in certificated form (and/or through the Viacom DRP) and the other letter of transmittal is to be used to tender your shares of Viacom class B common stock held in certificated form (and/or through the Viacom DRP). If you wish to tender all or some of your shares of Viacom class A common stock and all or some of your shares of Viacom class B common stock, then you must complete both letters of transmittal and return them, together with any other required documents (including share certificates, if applicable), to the exchange agent prior to the expiration of this exchange offer.

*Signature Guarantees.* Signatures on all letters of transmittal must be guaranteed by a firm which is a member of the Security Transfer Agent's Medallion Signature Program, or by any other eligible guarantor institution, as such term is defined in Rule 17Ad-15 under the Exchange Act (each of the foregoing being an eligible institution), except in cases in which shares of Viacom class A or class B common stock are tendered either (1) by a registered Viacom stockholder who has not completed the box entitled "Special Issuance Instructions" on the letter of transmittal, or (2) for the account of an eligible institution.

If the certificates for shares of Viacom class A or class B common stock are registered in the name of a person other than the person who signs the letter of transmittal, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates, with the signature(s) on the certificates or stock powers guaranteed by an eligible institution.

*Guaranteed Delivery Procedures.* If you wish to tender shares of Viacom class A or class B common stock pursuant to this exchange offer and your certificates are not immediately available or you cannot deliver the certificates and all other required documents to the exchange agent prior to the expiration of this exchange offer, or cannot complete the procedure for book-entry transfer on a timely basis, your shares of Viacom class A or class B common stock may nevertheless be tendered, so long as all of the following conditions are satisfied:

you make your tender by or through an eligible institution;

a properly completed and duly executed notice of guaranteed delivery, substantially in the form made available by Viacom, is received by the exchange agent as provided below on or prior to the expiration of this exchange offer; and

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the certificates for all tendered shares of Viacom class A or class B common stock (or a confirmation of a book-entry transfer of such securities into the exchange agent's account at The Depository Trust Company as described above), in proper form for transfer, together with a properly completed and duly executed letter of transmittal (or a manually signed facsimile thereof), with any required signature guarantees (or, in the case of a book-entry transfer, an agent's message) and all other documents required by the letter of transmittal are received by the exchange agent within three New York Stock Exchange trading days after the date of execution of such notice of guaranteed delivery.

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You may deliver the notice of guaranteed delivery by hand or transmit it by facsimile transmission or mail to the exchange agent, and you must include a guarantee by an eligible institution in the form set forth in that notice.

A tender of shares of Viacom class A or class B common stock pursuant to any of the procedures described above will constitute your acceptance of the terms and conditions of this exchange offer as well as your representation and warranty to Viacom that (1) you have the full power and authority to tender, sell, assign and transfer the tendered shares (and any and all other shares of Viacom class A or class B common stock or other securities issued or issuable in respect of such shares) and (2) when the same are accepted for exchange, Viacom will acquire good and unencumbered title to such shares, true and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claims.

In all cases, Viacom will exchange shares of Viacom class A or class B common stock tendered and accepted for exchange pursuant to this exchange offer only after timely receipt by the exchange agent of (1) certificates for shares of Viacom class A or class B common stock (or timely confirmation of a book-entry transfer of such securities into the exchange agent's account at The Depository Trust Company as described above), (2) properly completed and duly executed letter or letters of transmittal (or a manually signed facsimile thereof), along with any required signature guarantees, or an agent's message in connection with a book-entry transfer, and (3) any other required documents.

*Appointment of Attorneys-in-Fact and Proxies.* By executing a letter of transmittal as set forth above, you irrevocably appoint Viacom's designees as your attorneys-in-fact and proxies, each with full power of substitution, to the full extent of your rights with respect to your shares of Viacom class A or class B common stock tendered and accepted for exchange by Viacom and with respect to any and all other shares of Viacom class A or class B common stock and other securities issued or issuable in respect of the shares of Viacom class A or class B common stock on or after [ ], 2004. That appointment is effective, and voting rights will be affected, when and only to the extent that Viacom deposits the shares of Blockbuster class A and class B common stock payable as consideration for shares of Viacom class A or class B common stock that you have tendered with the exchange agent. All such proxies shall be considered coupled with an interest in the tendered shares of Viacom class A or class B common stock and therefore shall not be revocable. Upon the effectiveness of such appointment, all prior proxies that you have given will be revoked and you may not give any subsequent proxies (and, if given, they will not be deemed effective). Viacom's designees will, with respect to the shares of Viacom class A or class B common stock for which the appointment is effective, be empowered, among other things, to exercise all of your voting and other rights as they, in their sole discretion, deem proper at any annual, special or adjourned meeting of Viacom stockholders or otherwise. Viacom reserves the right to require that, in order for shares of Viacom class A or class B common stock to be deemed validly tendered, immediately upon Viacom's exchange of those shares of Viacom class A or class B common stock, Viacom must be able to exercise full voting rights with respect to such Viacom shares.

*Determination of Validity.* Viacom will determine questions as to the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of shares of Viacom class A or class B common stock, in Viacom's sole discretion, and its determination shall be final and binding. Viacom reserves the absolute right to reject any and all tenders of shares of Viacom class A or class B common stock that it determines are not in proper form or the acceptance of or exchange for which may, in the opinion of its counsel, be unlawful. Viacom also reserves the absolute right to waive any of the conditions of this exchange offer (other than the conditions relating to the absence of an injunction and the effectiveness of the Registration Statement for Blockbuster class A and class B common stock to be issued in this exchange offer), or any defect or irregularity in the tender of any shares of Viacom class A or class B common stock. **No tender of shares of Viacom class A or class B common stock is valid until all defects and irregularities in tenders of shares of Viacom class A or class B common**



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**stock have been cured or waived. Neither Viacom nor the exchange agent, the information agent, the co-dealer managers or any other person is under any duty to give notification of any defects or irregularities in the tender of any shares of Viacom class A or class B common stock or will incur any liability for failure to give any such notification.** Viacom's interpretation of the terms and conditions of this exchange offer (including the letter of transmittal and instruction booklet thereto) will be final and binding.

*Binding Agreement.* The tender of shares of Viacom class A or class B common stock pursuant to any of the procedures described above will constitute a binding agreement between Viacom and you upon the terms of and subject to the conditions to this exchange offer.

**The method of delivery of share certificates of Viacom class A or class B common stock and all other required documents, including delivery through The Depository Trust Company, is at your option and risk, and the delivery will be deemed made only when actually received by the exchange agent. If delivery is by mail, it is recommended that you use registered mail with return receipt requested, properly insured. In all cases, you should allow sufficient time to ensure timely delivery.**

## **Lost or Destroyed Certificates**

If your certificate representing shares of Viacom class A or class B common stock has been mutilated, destroyed, lost or stolen and you wish to tender your shares, you will need to complete the affidavit of lost certificate included on the letter of transmittal. You will also need to pay a surety bond for your lost shares of Viacom common stock if the number of such lost shares is greater than 2,500 shares. Upon receipt of the completed letter of transmittal with the affidavit of lost certificate and the surety bond payment, if applicable, your Viacom class A or class B common stock will be included in this exchange offer.

## **Withdrawal Rights**

Shares of Viacom class A or class B common stock tendered pursuant to this exchange offer may be withdrawn at any time prior to the expiration date and, unless Viacom has previously accepted them pursuant to this exchange offer, may also be withdrawn at any time after the expiration of 40 business days from the commencement of this exchange offer. Once Viacom accepts shares of Viacom class A or class B common stock pursuant to this exchange offer, your tender is irrevocable.

For your withdrawal to be effective, the exchange agent must receive from you a written, telex or facsimile transmission notice of withdrawal at one of its addresses set forth on the back cover of this Prospectus-Offer to Exchange, and your notice must include your name, address, social security number, the certificate number(s) and the number of shares of Viacom class A or class B common stock to be withdrawn, as well as the name of the registered holder, if it is different from that of the person who tendered those shares.

A financial institution must guarantee all signatures on the notice of withdrawal, unless those shares of Viacom class A or class B common stock have been tendered for the account of any eligible institution. If certificates have been delivered or otherwise identified to the exchange agent, the name of the registered holder and the serial numbers of the particular certificates evidencing the shares of Viacom class A or class B common stock withdrawn must also be furnished to the exchange agent, as stated above, prior to the physical release of the certificates. If shares of Viacom class A or class B common stock have been tendered pursuant to the procedures for book-entry tender discussed in the section entitled "Procedures for Tendering" beginning on page 58, any notice of withdrawal must specify the name and number of the account at The Depository Trust Company to be credited with the withdrawn Viacom shares and must otherwise comply with The Depository Trust Company's

procedures.

For shares of Viacom class A or class B common stock held through a Viacom or Blockbuster employee benefit plan, please refer to the instructions that will be sent to you separately from the trustees or administrators of these plans for withdrawal instructions.

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**Viacom will decide all questions as to the form and validity (including time of receipt) of any notice of withdrawal, in its sole discretion, and its decision shall be final and binding. Neither Viacom nor the exchange agent, the information agent, the co-dealer managers nor any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or will incur any liability for failure to give any notification.**

Any shares of Viacom class A or class B common stock properly withdrawn will be deemed not to have been validly tendered for purposes of this exchange offer. However, you may retender withdrawn shares of Viacom class A or class B common stock by following one of the procedures discussed in the section entitled "Procedures for Tendering" beginning on page 58 at any time prior to the expiration of this exchange offer (or pursuant to the instructions sent to you separately from the trustees or administrators of the employee benefit plans).

Except as otherwise provided above, any tender made under this exchange offer is irrevocable.

## **Book-Entry Accounts**

Certificates representing shares of Blockbuster class A or class B common stock will not be issued pursuant to this exchange offer. Rather than issuing certificates for such shares to tendering stockholders, the exchange agent will cause shares of Blockbuster class A or class B common stock to be credited to book-entry accounts maintained by Blockbuster's transfer agent for the benefit of the respective holders. Promptly following the crediting of shares to your respective book-entry accounts, you will receive a statement from Blockbuster's transfer agent evidencing your holdings, as well as general information on the book-entry form of ownership.

You are not required to maintain a book-entry account, and you may obtain a stock certificate for all or a portion of your shares of Blockbuster class A and class B common stock received as part of this exchange offer at no cost to you. Instructions describing how you can obtain stock certificates will be included with the statement mailed to you by Blockbuster's transfer agent. However, stock certificates for fractional shares will not be issued by either Viacom or Blockbuster. If you request stock certificates and you hold fractional shares, any fractional shares will be sold for your account by Blockbuster's transfer agent, which will then deliver to you a certificate for the whole number of shares you own and the proceeds from the sale of the fractional shares.

## **Extension; Termination; Amendment**

Viacom expressly reserves the right, in its sole discretion, for any reason, including the non-satisfaction of any of the conditions for completion of this exchange offer described in the next section entitled "Conditions for Completion of this Exchange Offer," including in the event this exchange offer is undersubscribed, to extend the period of time during which this exchange offer is open or to amend the terms of this exchange offer in any respect, including changing the exchange ratio. However, Viacom has certain contractual obligations with Blockbuster with respect to the disposition of its Blockbuster class B common stock and converted class A common stock even if the minimum amount condition and certain other conditions have not been satisfied, as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 91.

If Viacom materially changes the terms of or information concerning this exchange offer, it will extend this exchange offer. The SEC has stated that, as a general rule, it believes that an offer should remain open for a minimum of five business days from the date that notice of the material

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change is first given. The length of time will depend on the particular facts and circumstances. Subject to the preceding paragraph, this exchange offer will be extended so that it remains open for a minimum of ten business days following the announcement if:

Viacom increases or decreases the number of shares of Blockbuster class A or class B common stock offered in exchange for each share of Viacom class A or class B common stock, the number of shares of

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Viacom class A or class B common stock eligible for exchange or either of the co-dealer manager's fees; and

this exchange offer is scheduled to expire within ten business days of announcing any such increase or decrease.

If any of the conditions indicated in the next section entitled, "Conditions for Completion of this Exchange Offer", have not been met prior to the expiration of this exchange offer, Viacom expressly reserves the right, in its sole discretion, to extend this exchange offer or to terminate this exchange offer and not accept for exchange any shares of Viacom class A or class B common stock.

If Viacom extends this exchange offer, is delayed in accepting any shares of Viacom class A or class B common stock or is unable to accept for exchange any shares of Viacom class A or class B common stock under this exchange offer for any reason, then, without affecting Viacom's rights under this exchange offer, the exchange agent may, on Viacom's behalf, retain all shares of Viacom class A or class B common stock tendered. These shares of Viacom class A or class B common stock may not be withdrawn except as provided in the section entitled "Withdrawal Rights" beginning on page 62. Viacom's reservation of the right to delay acceptance of any shares of Viacom class A or class B common stock is subject to applicable law, which requires that Viacom pay the consideration offered or return the shares of Viacom class A or class B common stock deposited promptly after the termination or withdrawal of this exchange offer.

Viacom will issue a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day following any extension, amendment, non-acceptance or termination of the previously scheduled expiration date. Subject to applicable law (including Rules 13e-4(d), 13e-4(e)(3) and 14e-1 under the Exchange Act, which require that any material change in the information published, sent or given to stockholders in connection with this exchange offer be promptly sent to stockholders in a manner reasonably designed to inform stockholders of the change) and without limiting the manner in which Viacom may choose to make any public announcement, Viacom assumes no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release to the Dow Jones News Service or the Public Relations Newswire.

### **Conditions for Completion of this Exchange Offer**

Viacom will not be required to complete this exchange offer unless at least [ ] shares of Viacom class A or class B common stock are validly tendered and not withdrawn prior to the expiration of this exchange offer. This number of shares (the minimum amount) represents about [ ]% of the outstanding shares of Viacom class A and class B common stock as of [ ], 2004, and is enough shares to ensure that at least 60% of the shares of Blockbuster class B common stock and converted class A common stock that Viacom owns are exchanged pursuant to this exchange offer.

In addition, Viacom will not be required to accept shares for exchange, and may extend, terminate or amend this exchange offer if:

any condition or event occurs, or Viacom reasonably expects any condition or event to occur, which Viacom reasonably believes would or would be likely to cause this exchange offer to be taxable to Viacom or its stockholders under U.S. federal income tax laws;

Viacom notifies Blockbuster that it is in good faith pursuing a transaction involving Blockbuster (including, without limitation, a merger, consolidation, share sale or exchange, business combination, reorganization or recapitalization) that is reasonably likely to be consummated and is on terms that Viacom and a majority of the independent directors of Blockbuster determine, in their good faith judgment, to be more favorable to Blockbuster's stockholders than this exchange offer;



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any of the following events has occurred or will imminently occur:

any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States;

any extraordinary or material adverse change in U.S. financial markets generally, including, without limitation, a decline of at least 15% in either the Dow Jones Average of Industrial Stocks or the Standard & Poor's 500 Index within a period of 60 consecutive days or less occurring after June 18, 2004;

a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States;

a commencement of a war (whether declared or undeclared), armed hostilities or other national or international calamity, including an act of terrorism, directly or indirectly involving the United States, which would reasonably be expected to affect materially and adversely, or to delay materially, the completion of this exchange offer; or

if any of the situations above exists, as of June 18, 2004, the situation deteriorates materially;

there has occurred a material adverse change in the business, condition (financial or other), results of operations or stock price of Blockbuster, which is referred to in this Prospectus-Offer to Exchange as a Business MAC, provided that none of the following shall be deemed, in and of itself, to constitute a Business MAC: (1) any change resulting from the transactions contemplated by the IPO agreement, (2) any failure to meet published analyst forecasts, or (3) the recognition of any restructuring or similar accounting charge which does not or will not have any effect on the cash flows of the business after June 18, 2004 ((1) and (2) do not exclude from the definition of a Business MAC the events or factors which may have given rise to (1) or (2), but only (1) or (2) themselves);

there has occurred a material adverse change in the business, prospects, condition (financial or other) or results of operations of Viacom;

there have occurred any breaches of any of Blockbuster's covenants or agreements with Viacom set forth in the separation agreements described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationship Between Viacom and Blockbuster beginning on page 91, which breaches in the aggregate have had or are reasonably likely to have a material adverse effect on the expected benefits to Viacom of this exchange offer;

any action, litigation, suit, claim or proceeding is instituted that would be reasonably likely to enjoin, prohibit, restrain, make illegal, make materially more costly or materially delay completion of this exchange offer;

any order, stay, judgment or decree is issued by any U.S. federal or state court, government, governmental authority or other regulatory or administrative authority having jurisdiction over Viacom and Blockbuster and is in effect, or any law, statute, rule, regulation, legislation, interpretation, governmental order or injunction shall have been enacted or enforced, any of which would reasonably be likely to restrain, prohibit or delay completion of this exchange offer or materially impair the contemplated benefits of this exchange offer to Viacom or Blockbuster;

any stop order suspending the effectiveness of the Registration Statement of which this Prospectus-Offer to Exchange is a part has been issued, or any proceeding for that purpose has been initiated by the SEC and not concluded or withdrawn; or

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the shares of Blockbuster class B common stock issuable in this exchange offer have not been approved for listing on the New York Stock Exchange, subject to official notice of issuance.

If any of the above events occurs, Viacom may:

terminate this exchange offer and as promptly as practicable return all tendered shares of Viacom class A or class B common stock to tendering stockholders;



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extend this exchange offer and, subject to the withdrawal rights described in the section entitled "Withdrawal Rights" beginning on page 62, retain all tendered shares of Viacom class A or class B common stock until the extended exchange offer expires;

amend the terms of this exchange offer; or

waive the unsatisfied condition and, subject to any requirement to extend the period of time during which this exchange offer is open, complete this exchange offer.

These conditions are for the sole benefit of Viacom. Viacom may assert these conditions with respect to all or any portion of this exchange offer regardless of the circumstances giving rise to them. Viacom may waive any condition in whole or in part at any time in its sole discretion, subject to applicable law. Viacom's failure to exercise its rights under any of the above conditions does not represent a waiver of these rights. Each right is an ongoing right which may be asserted at any time. However, all conditions for completion of this exchange offer must be satisfied or waived by Viacom prior to the expiration of this exchange offer. Any determination by Viacom concerning the conditions described above will be final and binding upon all parties.

If a stop order issued by the SEC is in effect with respect to the Registration Statement of which this Prospectus-Offer to Exchange is a part, Viacom will not accept any shares of Viacom class A or class B common stock tendered and will not exchange shares of Blockbuster class A and class B common stock for any shares of Viacom class A or class B common stock.

## **Fees and Expenses**

Bear Stearns and Goldman Sachs are acting as co-dealer managers in connection with this exchange offer, in which capacity Bear Stearns and Goldman Sachs will, among other things, assist Viacom in connection with this exchange offer. Bear Stearns will receive a customary fee for its services as co-dealer manager and financial advisor to Viacom, in addition to being reimbursed by Viacom for its reasonable out-of-pocket expenses, including attorneys' fees, in connection with this exchange offer. Goldman Sachs will receive a customary fee for its services as co-dealer manager and financial advisor to Viacom, in addition to being reimbursed by Viacom for its reasonable out-of-pocket expenses, including attorneys' fees, in connection with this exchange offer. The foregoing fees will be payable if and when this exchange offer is completed. Bear Stearns and Goldman Sachs have provided investment banking services to Viacom and its affiliates and Blockbuster in the past for which Bear Stearns and Goldman Sachs received customary compensation. Additionally, Bear Stearns is currently providing investment banking services to an affiliate of Viacom for which Bear Stearns will receive customary compensation. Alan C. Greenberg, the Chairman of the Executive Committee and a member of the board of directors of Bear Stearns, is a member of Viacom's board of directors.

Viacom has agreed to indemnify Bear Stearns and Goldman Sachs against specified liabilities related to this transaction, including civil liabilities under the federal securities laws, and to contribute to payments which Bear Stearns and Goldman Sachs may be required to make in respect thereof. In the ordinary course of business, Bear Stearns and Goldman Sachs are engaged in securities trading and brokerage activities as well as investment banking and financial advisory services. In the ordinary course of their trading and brokerage activities, Bear Stearns and Goldman Sachs or certain of their respective affiliates may from time to time hold positions of Viacom class A or class B common stock or Blockbuster class A common stock or, after the completion of this exchange offer, Blockbuster class B common stock in their proprietary accounts or those of their customers, and to the extent they hold shares of Viacom class A or class B common stock in these accounts at the time of this exchange offer, Bear Stearns and Goldman Sachs or certain of their respective affiliates may tender these shares.

Viacom has retained [ ] to act as the information agent and [ ] to act as the exchange agent in connection with this exchange offer. The information agent may contact holders of shares of Viacom class A or class B common stock by mail, e-mail, telephone, facsimile

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transmission and personal interviews and may request brokers, dealers and other nominee stockholders to forward materials relating to this exchange offer to

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beneficial owners. The information agent and the exchange agent each will receive reasonable compensation for their respective services, will be reimbursed for reasonable out-of-pocket expenses and will be indemnified against liabilities in connection with their services, including liabilities under the federal securities laws.

Neither the information agent nor the exchange agent has been retained to make solicitations or recommendations. The fees they receive will not be based on the number of shares of Viacom class A or class B common stock tendered under this exchange offer; however, the exchange agent will be compensated in part on the basis of the number of letters of transmittal received.

Viacom will not pay any fees or commissions to any broker or dealer or any other person, other than fees paid to Bear Stearns and Goldman Sachs in connection with this exchange offer, for soliciting tenders of shares of Viacom class A or class B common stock under this exchange offer. Viacom will, upon request, reimburse brokers, dealers, commercial banks and trust companies for reasonable and necessary costs and expenses incurred by them in forwarding materials to their customers.

No broker, dealer, bank, trust company or fiduciary shall be deemed to be Viacom's agent or the agent of Blockbuster, Bear Stearns, Goldman Sachs, [ ] or [ ] for purposes of this exchange offer.

## **Legal Limitations**

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

In any jurisdiction in which the securities or blue sky laws require this exchange offer to be made by a licensed broker or dealer, this exchange offer may be made on Viacom's behalf by one or more registered brokers or dealers licensed under the laws of such jurisdiction.

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**SPIN-OFF AND DISPOSITIONS OF BLOCKBUSTER COMMON STOCK**

**Spin-Off of Blockbuster Class B Common Stock and Converted Class A Common Stock**

Viacom will dispose of any shares of Blockbuster class B common stock and converted class A common stock it holds following this exchange offer and any spin-off. As soon as practicable following the completion of this exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class B common stock and converted class A common stock (if any), except that once Viacom has distributed more than 80% of the total voting power of Blockbuster in the aggregate in this exchange offer and any spin-off, Viacom may elect not to distribute its remaining shares in a spin-off so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the adjustment described in the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 91. If Viacom elects not to distribute its remaining Blockbuster shares in a spin-off, Viacom stockholders who do not participate in this exchange offer will have no direct ownership interest in Blockbuster unless such holders otherwise acquire or have acquired shares of Blockbuster common stock.

Fractional shares will not be issued in any spin-off. The exchange agent, acting in its ongoing capacity as transfer agent for the Viacom stockholders otherwise entitled to receive fractional shares, will aggregate all fractional shares and cause them to be sold in the open market for the accounts of these stockholders. The proceeds that the exchange agent may realize from the sale of the fractional shares will be distributed, net of commissions, to each stockholder entitled thereto in accordance with the stockholder's fractional interest. None of Viacom, Blockbuster, the exchange agent or the co-dealer managers will guarantee any minimum proceeds from the sale of fractional shares of Blockbuster class A or class B common stock, and no interest will be paid on these proceeds. Generally, a stockholder who receives cash instead of fractional shares of Blockbuster class A or class B common stock will recognize gain or loss on the receipt of the cash to the extent that the cash received exceeds the tax basis that would have been allocated to that stockholder's fractional shares. You are urged to read carefully the discussion in the section titled *U.S. Federal Income Tax Consequences* beginning on page 105 and to consult your tax advisor on the consequences to you of the spin-off.

Pursuant to the amended and restated registration rights agreement entered into by Viacom and Blockbuster in connection with this exchange offer, Blockbuster has filed a shelf registration statement on Form S-3 to facilitate the public resale of any Blockbuster class A and class B common stock received in any spin-off by NAIRI, Inc., a wholly owned subsidiary of National Amusements, which is referred to in this Prospectus-Offer to Exchange as *NAIRI*, and Mr. Sumner M. Redstone. See the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Registration Rights Agreement* on page 100.

**Disposition of Blockbuster Class A Common Stock**

Viacom owns approximately 3.6 million shares of Blockbuster class A common stock, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of this exchange offer by contributing these shares of Blockbuster class A common stock to the Viacom Pension Plan and the CBS Combined Pension Plan. Pursuant to the amended and restated registration rights agreement entered into by Viacom and Blockbuster in connection with this exchange offer, Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan and the CBS Combined Pension Plan. See the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Registration Rights Agreement* on page 100.



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**BLOCKBUSTER STOCK OPTION MATTERS**

**Stock Option Adjustment**

The Senior Executive Compensation Committee of Blockbuster's board of directors has authority under the Blockbuster Inc. 1999 Long-Term Management Incentive Plan, which is referred to in this Prospectus-Offer to Exchange as the Blockbuster 1999 Incentive Plan, to make adjustments to the terms of outstanding stock options previously granted under the plan in the event of a dividend or distribution or other specified transactions. Blockbuster's stockholders approved an amendment to the Blockbuster 1999 Incentive Plan at Blockbuster's 2004 annual meeting. The amendment clarifies the manner in which outstanding options are adjusted in the event of an extraordinary cash dividend.

Holders of Blockbuster stock options as of the record date for the special distribution will not be entitled to receive the special distribution. However, in order to preserve the value of previously granted options in light of the special distribution, effective as of [ ], 2004, Blockbuster's Senior Executive Compensation Committee, in accordance with the Blockbuster 1999 Incentive Plan, approved the following adjustments to the outstanding stock options previously granted to optionees under the plan:

the reduction of the exercise price of such stock options to an amount equal to (x) the original exercise price of such stock options multiplied by (y) the ratio of (1) the opening price per share on the ex-dividend date for the special distribution, to (2) the closing price per share on the business day before the ex-dividend date for the special distribution; and

the increase in the number of stock options to an amount equal to (a) the original number of options multiplied by (b) the ratio of (1) the closing price per share on the business day before the ex-dividend date for the special distribution to (2) the opening price per share on the ex-dividend date for the special distribution.

The Senior Executive Compensation Committee also approved a corresponding adjustment to the total number of shares available for future grants under the plan. These adjustments were intended to ensure that the economic value of stock options held by Blockbuster's optionees would be preserved, but not increased, as a result of the special distribution. The Senior Executive Compensation Committee determined this adjustment to be necessary to continue to provide appropriate incentives to Blockbuster's directors, officers and other optionees, on the same basis as was contemplated when the applicable stock options were granted. Because the special distribution is expected to reduce the trading value of Blockbuster's class A common stock, failure to adjust the options already awarded would have, in effect, resulted in an upwards repricing of the options. The adjustment will not result in a charge to earnings in Blockbuster's consolidated financial statements.

**Restricted Stock Exchange Offer**

The Senior Executive Compensation Committee of Blockbuster's board of directors has approved in concept a plan to offer to its employees holding Blockbuster stock options the opportunity, at each optionholder's election, to exchange all, but not less than all, of their options for restricted stock of Blockbuster. However, optionholders with minimal holdings will likely be offered cash in lieu of restricted stock. A majority of the currently outstanding Blockbuster stock options have exercise prices in excess of Blockbuster's current stock price. The restricted stock exchange offer is intended to retain and motivate key employees as Blockbuster works toward implementing its new initiatives. Blockbuster expects that, upon completion, the restricted stock exchange offer would reduce the potential additional dilution created by the stock option adjustment referred to in the section above entitled Stock Option Adjustment.

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The restricted stock exchange offer would result in a significant non-cash compensation charge to Blockbuster in future periods. The current estimate of this non-cash compensation charge to Blockbuster,

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assuming the restricted stock exchange offer is fully subscribed, is approximately \$80 to \$100 million in the aggregate. The non-cash compensation charge would be recognized over a vesting period of two to three years depending upon the final terms of the restricted stock exchange offer.

Blockbuster anticipates that the restricted stock exchange offer would take place after the split-off, but not necessarily after any spin-off. The specific timing and final terms of the restricted stock exchange offer will be determined by Blockbuster's Senior Executive Compensation Committee.



**Table of Contents****MARKET PRICES AND DIVIDEND INFORMATION****Shares of Viacom Class A and Class B Common Stock and Dividends**

The following table describes the per share range of high and low sales prices for Viacom class A and class B common stock for the quarterly periods indicated, as reported by the New York Stock Exchange. Shares of Viacom class A and class B common stock are listed on the New York Stock Exchange under the symbols VIA and VIAB, respectively.

	Voting		Non-Voting	
	Viacom Class A Common Stock		Viacom Class B Common Stock	
	High	Low	High	Low
<b>2002</b>				
First Quarter	\$ 51.89	\$ 36.50	\$ 51.89	\$ 36.40
Second Quarter	51.36	38.99	51.30	38.80
Third Quarter	45.00	29.79	44.90	29.75
Fourth Quarter	47.82	36.95	47.83	36.95
<b>2003</b>				
First Quarter	\$ 43.95	\$ 33.26	\$ 43.96	\$ 33.11
Second Quarter	48.13	36.53	49.75	36.16
Third Quarter	46.93	37.79	46.95	37.72
Fourth Quarter	44.67	36.98	44.62	36.87
<b>2004</b>				
First Quarter	\$ 45.10	\$ 36.76	\$ 45.05	\$ 36.35
Second Quarter	42.32	35.80	42.15	35.08
Third Quarter (through July 27, 2004)	36.74	34.12	35.80	33.56

As of [ ], 2004, there were approximately [ ] holders of record of shares of Viacom class A common stock and approximately [ ] holders of record of shares of Viacom class B common stock.

On June 17, 2004, the last full day of trading prior to the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing sales prices per share of Viacom class A and class B common stock as reported by the New York Stock Exchange were \$37.21 and \$36.66, respectively. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing sales prices per share of the Viacom class A and class B common stock as reported by the New York Stock Exchange were \$[ ] and \$[ ], respectively. The market prices of Viacom class A and class B common stock are subject to fluctuation. As a result, you should obtain current market quotations for the shares of Viacom class A and class B common stock before deciding to tender your shares of Viacom class A or class B common stock. No one can assure you what the market price of shares of Viacom class A or class B common stock will be before, on or after the date on which this exchange offer is completed.

In October 2003, Viacom began paying a quarterly cash dividend on Viacom class A and class B common stock of \$.06 per share. Dividends were paid on October 1, 2003, January 1, 2004, April 1, 2004 and July 1, 2004 to stockholders of record at the close of business on August 15, 2003, December 8, 2003, February 27, 2004 and June 1, 2004, respectively. On July 21, 2004, Viacom announced that it would pay a quarterly

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dividend on October 1, 2004 to stockholders of record at the close of business on August 31, 2004. Viacom's board of directors is free to change its dividend practices from time to time and to decrease or increase the dividend paid, or to not pay a dividend, on its class A and class B common stock on the basis of results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by its board of directors.

**Table of Contents****Shares of Blockbuster Class A and Class B Common Stock and Dividends**

Shares of Blockbuster class A common stock are listed on the New York Stock Exchange under the symbol BBI. There has been no historical trading market for the shares of Blockbuster class B common stock because all of the issued and outstanding shares of Blockbuster class B common stock have been held by Viacom or its affiliates at all times since their issuance. Following the completion of this exchange offer, subject to authorization by the New York Stock Exchange, Blockbuster expects that shares of Blockbuster class B common stock will be listed on the New York Stock Exchange. The following table describes the per share range of high and low closing sales prices for shares of Blockbuster class A common stock for the quarterly periods indicated, as reported by the New York Stock Exchange.

	<b>Blockbuster Class A Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>2002</b>		
First Quarter	\$ 25.20	\$ 17.39
Second Quarter	30.25	21.90
Third Quarter	26.81	17.25
Fourth Quarter	26.80	11.80
<b>2003</b>		
First Quarter	\$ 17.95	\$ 12.21
Second Quarter	18.60	14.50
Third Quarter	23.07	15.70
Fourth Quarter	22.92	16.74
<b>2004</b>		
First Quarter	\$ 19.06	\$ 15.90
Second Quarter	17.58	14.61
Third Quarter (through July 27, 2004)	15.05	13.20

As of [ ], 2004, there were approximately [ ] holders of record of shares of Blockbuster class A common stock. Viacom currently owns all of the outstanding shares of Blockbuster class B common stock, and immediately prior to the commencement of this exchange offer, Viacom will own approximately 81.5% of the equity value of Blockbuster.

On June 17, 2004, the last full day of trading prior to the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange forms a part, the closing sales price per share of Blockbuster class A common stock as reported by the New York Stock Exchange was \$15.39. On [ ], 2004, the last New York Stock Exchange trading day before the date of this Prospectus-Offer to Exchange, the closing sales price per share of the Blockbuster class A common stock was \$[ ] as reported by the New York Stock Exchange. The market price of Blockbuster class A common stock is subject to fluctuation. As a result, you should obtain current market quotations for the shares of Blockbuster class A common stock before deciding to tender your shares of Viacom class A or class B common stock. No one can assure you what the market price of shares of Blockbuster class A common stock will be before, on or after the date on which this exchange offer is completed. There is no historical trading market for Blockbuster's class B common stock and no one can assure you what the market price of shares of Blockbuster class B common stock will be after the date on which this exchange offer is completed.

Blockbuster has paid and currently intends to pay a quarterly dividend of \$0.02 per share on its common stock. On [ ], 2004, Blockbuster paid the special distribution of \$5.00 per share (approximately \$905 million in the aggregate) to its stockholders of record on [ ], 2004. Blockbuster funded the special distribution through borrowings under its new credit agreement. Blockbuster's new credit agreement will limit its ability to repurchase common stock and pay dividends other than (i) the special distribution, and (ii) up to an aggregate of (x) \$300 million plus

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(y) 50% of the net income of Blockbuster and its subsidiaries (before deducting provisions required by SFAS 142 or SFAS 123 or non-recurring expenses incurred in connection with the split-off) accruing after December 31, 2004, provided that certain reductions in Blockbuster's total

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leverage ratio have occurred, plus (z) the net cash proceeds of stock issuances by Blockbuster since December 31, 2003. See the section entitled Description of Other Material Agreements New Blockbuster Credit Agreement beginning on page 134. Subject to these limitations, Blockbuster's board of directors is free to change Blockbuster's dividend practices from time to time and to decrease or increase the dividend paid, or to not pay a dividend, on Blockbuster's common stock on the basis of results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by Blockbuster's board of directors.

**Table of Contents****CAPITALIZATION OF VIACOM AND BLOCKBUSTER****Viacom**

The following table sets forth Viacom's capitalization as of March 31, 2004 on a historical basis, as reported by Viacom, and on a pro forma basis to reflect receipt of the special distribution and the deconsolidation of Blockbuster upon the consummation of this exchange offer. This table should be read together with the sections entitled "Summary Selected Historical Financial Data for Viacom and Blockbuster" and "Viacom Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on pages 23 and 76, respectively, and the consolidated financial statements and accompanying notes included in Viacom's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and Viacom's Annual Report on Form 10-K for the year ended December 31, 2003 for more detailed disclosure on Viacom's debt structure, which reports are incorporated by reference in this document.

	At March 31, 2004	
	(unaudited)	
	Viacom Historical	Viacom Pro Forma
<b>(in millions, except per share amounts)</b>		
Cash and cash equivalents	\$ 1,059.3	\$ 1,653.3
<b>Debt:</b>		
Notes payable to banks	\$ 57.1	\$ 7.1
Commercial paper	20.0	20.0
Senior debt (4.625% - 8.875% due 2005 - 2051)	9,284.2	9,284.2
Senior subordinated debt (10.5% due 2009)	64.3	64.3
Other notes	16.0	1.1
Obligations under capital leases	379.1	285.2
<b>Total debt</b>	<b>9,820.7</b>	<b>9,661.9</b>
<b>Stockholders' equity:</b>		
Class A Common Stock, par value \$.01 per share; 750.0 shares authorized; 133.5 shares issued on a historical basis and [ ] shares on a pro forma basis	1.3	[ ]
Class B Common Stock, par value \$.01 per share; 10,000.0 shares authorized; 1,732.3 shares issued on a historical basis and [ ] shares on a pro forma basis	17.4	[ ]
Additional paid-in capital	65,878.7	[ ]
Retained earnings	3,748.6	[ ]
Accumulated other comprehensive loss	(359.9)	(327.9)
Less: Treasury stock	5,793.1	[ ]
<b>Total stockholders' equity</b>	<b>63,493.0</b>	<b>[ ]</b>
<b>Total capitalization</b>	<b>\$ 73,313.7</b>	<b>\$ [ ]</b>



**Table of Contents****Blockbuster**

The following table sets forth Blockbuster's capitalization as of March 31, 2004 on a historical basis, as reported by Blockbuster, and on a pro forma basis to reflect additional borrowings, the special distribution, the conversion of shares of Blockbuster class B common stock to Blockbuster class A common stock and other pro forma adjustments. This table should be read together with the sections entitled

Summary Selected Historical Financial Data for Viacom and Blockbuster and Blockbuster Unaudited Pro Forma Consolidated Condensed Financial Information beginning on pages 23 and 84, respectively, and the consolidated financial statements and accompanying notes and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included in Blockbuster's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 and Blockbuster's Annual Report on Form 10-K for the year ended December 31, 2003 for more detailed disclosure on Blockbuster's debt structure, which are included in this Prospectus Offer to Exchange as Annex B and A, respectively.

	At March 31, 2004	
	(unaudited)	
	Blockbuster Historical	Blockbuster Pro Forma
<b>(in millions, except per share amounts)</b>		
Cash and cash equivalents	\$ 137.0	\$ 172.6
<b>Debt:</b>		
Term loan	\$ 50.0	\$
New facility:		
Tranche A		200.0
Tranche B		750.0
Revolving credit facility		50.0
All other obligations	14.9	14.9
Capital lease obligations	93.9	93.9
<b>Total debt</b>	<b>158.8</b>	<b>1,108.8</b>
<b>Stockholders' equity:</b>		
Preferred stock, par value \$0.01 per share; 100.0 shares authorized; no shares issued or outstanding		
Class A common stock, par value \$0.01 per share; 400.0 shares authorized; 37.1 shares issued and outstanding on a historical basis and [ ] shares on a pro forma basis	0.4	[ ]
Class B common stock, par value \$0.01 per share; 500.0 shares authorized; 144.0 shares issued and outstanding on a historical basis and [ ] shares on a pro forma basis	1.4	[ ]
Additional paid-in capital	6,225.9	5,329.6
Retained deficit	(2,826.0)	(2,829.2)
Accumulated other comprehensive loss	(39.3)	(39.3)
<b>Total stockholders' equity</b>	<b>3,362.4</b>	<b>2,462.9</b>
<b>Total capitalization</b>	<b>\$ 3,521.2</b>	<b>\$ 3,571.7</b>



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**VIACOM UNAUDITED PRO FORMA  
CONSOLIDATED CONDENSED FINANCIAL INFORMATION**

The following unaudited pro forma consolidated condensed balance sheet of Viacom as of March 31, 2004 gives effect to the pro forma events described below, as if such events occurred at March 31, 2004. The unaudited pro forma consolidated condensed statements of operations for the three months ended March 31, 2004 and the years ended December 31, 2003, 2002 and 2001 give effect to the pro forma events as if such events occurred at the beginning of the earliest period presented. The unaudited pro forma consolidated condensed financial statements are based upon the historical financial statements of Viacom and Blockbuster for each period presented. In the opinion of Viacom and Blockbuster management, all adjustments and/or disclosures necessary for a fair presentation of the pro forma data have been made.

The pro forma events are: (i) Blockbuster's payment of a special distribution of \$5.00 per share to its stockholders; (ii) Viacom's split-off of Blockbuster as a result of the consummation of this exchange offer;

(iii) the reduction in the number of shares of Viacom common stock outstanding and the weighted average number of such shares outstanding used in the earnings per share calculations as a result of such shares being accepted for exchange in this exchange offer; and (iv) Viacom's contribution of the Blockbuster class A common shares previously purchased in the open market in order to maintain U.S. federal income tax consolidation of Blockbuster to the Viacom Pension Plan and the CBS Combined Pension Plan.

These unaudited pro forma condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the operating results or the financial position that would have been achieved had the pro forma events described above been consummated as of the dates indicated or of the results that may be obtained in the future. These unaudited pro forma condensed financial statements and the notes thereto should be read together with:

Blockbuster's unaudited pro forma condensed financial statements included herein.

Viacom's consolidated financial statements and the notes thereto as of and for the year ended December 31, 2003, and Management's Discussion and Analysis included in Viacom's Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this Prospectus-Offer to Exchange.

Viacom's consolidated financial statements and the notes thereto as of and for the quarter ended March 31, 2004, and Management's Discussion and Analysis included in Viacom's Quarterly Report on Form 10-Q for the period ended March 31, 2004, which is incorporated by reference into this Prospectus-Offer to Exchange.

Blockbuster's consolidated financial statements and the notes thereto as of and for the year ended December 31, 2003, and Management's Discussion and Analysis included in Blockbuster's Annual Report on Form 10-K for the year ended December 31, 2003, included in this Prospectus-Offer to Exchange as Annex A.

Blockbuster's consolidated financial statements and the notes thereto as of and for the quarter ended March 31, 2004, and Management's Discussion and Analysis included in Blockbuster's Quarterly Report on Form 10-Q for the period ended March 31, 2004, included in this Prospectus-Offer to Exchange as Annex B.

**Table of Contents****Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Balance Sheet****At March 31, 2004****(in millions)**

	<u>Viacom Historical</u>	<u>Blockbuster Historical</u>	<u>Pro Forma Adjustments</u>	<u>Effects of the Exchange(3)</u>	<u>Viacom Pro Forma</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,059.3	\$ (137.0)	\$ 737.9 (1) (6.9)(1)	\$	\$ 1,653.3
Receivables	3,894.6	(162.2)	29.1 (2b)		3,761.5
Inventory	1,328.1	(417.5)	(22.2)(2b)		888.4
Other current assets	1,188.8	(161.2)	17.0(2c)		1,044.6
<b>Total current assets</b>	<b>7,470.8</b>	<b>(877.9)</b>	<b>754.9</b>		<b>7,347.8</b>
Property and equipment, net	5,891.3	(808.9)			5,082.4
Inventory	4,749.4	(347.1)	2.7 (2b)		4,405.0
Goodwill	57,032.1	(2,627.7)	16.1 (2d)		54,420.5
Intangibles	12,389.7	(34.5)			12,355.2
Investment in Blockbuster			2,023.1 (2a) 6.9 (1)	(2,030.0)	
Other assets	2,198.2	(51.6)		[ ]	[ ]
<b>Total assets</b>	<b>\$ 89,731.5</b>	<b>\$ (4,747.7)</b>	<b>\$ 2,803.7</b>	<b>\$ [ ]</b>	<b>\$ [ ]</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>					
Current portion of long-term debt	\$ 135.6	\$ (85.5)	\$	\$	\$ 50.1
Accounts payable and accrued expenses	4,383.7	(1,027.5)	22.2 (2b)	[ ]	[ ]
Other current liabilities	2,666.1	(32.3)	10.7 (2c) 29.0 (2a)		2,673.5
<b>Total current liabilities</b>	<b>7,185.4</b>	<b>(1,145.3)</b>	<b>61.9</b>	<b>[ ]</b>	<b>[ ]</b>
Long-term debt	9,685.1	(73.3)			9,611.8
Other liabilities	8,722.4	(166.2)	(19.8)(2c)	[ ]	[ ]
Minority interest	645.6	(0.5)	(465.4)(2a) (167.4)(1)		12.3
<b>Stockholders Equity:</b>					
Common stock	18.7	(1.8)	1.8 (2a)	[ ]	[ ]
Additional paid-in capital	65,878.7	(6,225.9)	6,225.9 (2a)	[ ]	[ ]
Retained earnings	3,748.6	2,826.0	(2,826.0)(2a)	[ ]	[ ]
Accumulated other comprehensive loss	(359.9)	39.3	(7.3)(2a)		(327.9)
<b>Less treasury stock, at cost</b>	<b>69,286.1</b>	<b>(3,362.4)</b>	<b>3,394.4 (2a)</b>	<b>[ ]</b>	<b>[ ]</b>
	5,793.1			[ ]	[ ]

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Total stockholders equity	63,493.0	(3,362.4)	3,394.4	[ ]	[ ]
Total liabilities and stockholders equity	\$ 89,731.5	\$ (4,747.7)	\$ 2,803.7	\$ [ ]	\$ [ ]

The accompanying notes are an integral part of this unaudited pro forma consolidated condensed balance sheet.

**Table of Contents****Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations****Three Months Ended March 31, 2004****(in millions, except per share amounts)**

	<b>Viacom Historical</b>	<b>Blockbuster Historical</b>	<b>Pro Forma Adjustments</b>	<b>Effects of the Exchange</b>	<b>Viacom Pro Forma</b>
<b>Revenues</b>	\$ 6,772.4	\$ (1,503.1)	\$ 29.0(2b)	\$	\$ 5,298.3
Operating expenses	4,289.6	(579.5)	26.1(2b)		3,736.2
Selling, general and administrative expenses	1,051.8	(739.1)	0.2(2b) 0.8(2e)		313.7
Depreciation and amortization	251.5	(59.6)			191.9
<b>Operating income</b>	<b>1,179.5</b>	<b>(124.9)</b>	<b>1.9</b>		<b>1,056.5</b>
Interest expense, net	(179.1)	3.9			(175.2)
Other items, net	(11.6)	0.6			(11.0)
<b>Earnings before income taxes</b>	<b>988.8</b>	<b>(120.4)</b>	<b>1.9</b>		<b>870.3</b>
Provision for income taxes	(254.8)	7.8	(1.1)(4)		(248.1)
Equity in loss of affiliates, net of tax	(2.1)				(2.1)
Minority interest, net of tax	(21.4)		20.1(2a)		(1.3)
<b>Net earnings before cumulative effect of accounting change</b>	<b>\$ 710.5</b>	<b>\$ (112.6)</b>	<b>\$ 20.9</b>	<b>\$</b>	<b>\$ 618.8</b>
<b>Net earnings before cumulative effect per common share:</b>					
Basic	\$ 0.41				\$ [ ]
Diluted	\$ 0.41				\$ [ ]
<b>Weighted average number of common shares:</b>					
Basic	1,731.0			( ) (3)	[ ]
Diluted	1,744.5			( ) (3)	[ ]

The accompanying notes are an integral part of this unaudited pro forma consolidated condensed statement of operations.



**Table of Contents****Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations****Year Ended December 31, 2003****(in millions, except per share amounts)**

	<u>Viacom Historical</u>	<u>Blockbuster Historical</u>	<u>Pro Forma Adjustments</u>	<u>Effects of the Exchange</u>	<u>Viacom Pro Forma</u>
<b>Revenues</b>	\$ 26,585.3	\$ (5,911.7)	\$ 154.0 (2b)	\$	\$ 20,827.6
Operating expenses	16,253.7	(2,389.8)	133.9 (2b)		13,997.8
Selling, general and administrative expenses	4,374.7	(2,804.3)	14.1 (2b) 3.2 (2c)		1,587.7
Impairment and restructuring charges	1,331.3	(1,304.9)			26.4
Depreciation and amortization	999.8	(257.9)			741.9
<b>Operating income</b>	<u>3,625.8</u>	<u>845.2</u>	<u>2.8</u>		<u>4,473.8</u>
Interest expense, net	(761.2)	30.0			(731.2)
Other items, net	(3.4)	0.4			(3.0)
<b>Earnings before income taxes</b>	<u>2,861.2</u>	<u>875.6</u>	<u>2.8</u>		<u>3,739.6</u>
Provision for income taxes	(1,599.0)	103.2	(2.4)(4)		(1,498.2)
Equity in earnings of affiliates, net of tax	(0.6)	0.7			0.1
Minority interest, net of tax	173.8		(178.5)(2a)		(4.7)
<b>Net earnings before cumulative effect of accounting change</b>	<u>\$ 1,435.4</u>	<u>\$ 979.5</u>	<u>\$ (178.1)</u>	<u>\$</u>	<u>\$ 2,236.8</u>
<b>Net earnings before cumulative effect per common share:</b>					
Basic	\$ 0.82				\$ [ ]
Diluted	\$ 0.82				\$ [ ]
<b>Weighted average number of common shares:</b>					
Basic	1,744.0			( ) (3)	[ ]
Diluted	1,760.7			( ) (3)	[ ]

The accompanying notes are an integral part of this unaudited pro forma consolidated condensed statement of operations.

**Table of Contents****Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations****Year Ended December 31, 2002****(in millions, except per share amounts)**

	<u>Viacom Historical</u>	<u>Blockbuster Historical</u>	<u>Pro Forma Adjustments</u>	<u>Effects of the Exchange</u>	<u>Viacom Pro Forma</u>
<b>Revenues</b>	\$ 24,605.7	\$ (5,565.9)	\$ 147.0 (2b)	\$	\$ 19,186.8
Operating expenses	14,865.1	(2,358.7)	157.9 (2b)		12,664.3
Selling, general and administrative expenses	4,198.3	(2,636.3)	22.5 (2b)		1,587.7
			3.2 (2e)		
Depreciation and amortization	945.6	(233.8)			711.8
<b>Operating income</b>	<u>4,596.7</u>	<u>(337.1)</u>	<u>(36.6)</u>		<u>4,223.0</u>
Interest expense, net	(832.5)	45.4			(787.1)
Other items, net	(30.0)	(2.9)			(32.9)
<b>Earnings before income taxes</b>	<u>3,734.2</u>	<u>(294.6)</u>	<u>(36.6)</u>		<u>3,403.0</u>
Provision for income taxes	(1,448.9)	103.0	13.5 (4)		(1,332.4)
Equity in loss of affiliates, net of tax	(39.5)	2.2			(37.3)
Minority interest, net of tax	(39.2)		35.9 (2a)		(3.3)
<b>Net earnings before cumulative effect of accounting change</b>	<u>\$ 2,206.6</u>	<u>\$ (189.4)</u>	<u>\$ 12.8</u>	<u>\$</u>	<u>\$ 2,030.0</u>
<b>Net earnings before cumulative effect per common share:</b>					
Basic	\$ 1.26				\$ [ ]
Diluted	\$ 1.24				\$ [ ]
<b>Weighted average number of common shares:</b>					
Basic	1,752.8			( ) (3)	[ ]
Diluted	1,774.8			( ) (3)	[ ]

The accompanying notes are an integral part of this  
unaudited pro forma consolidated condensed statement of operations.





**Table of Contents****Viacom Inc.****Unaudited Pro Forma Consolidated Condensed Statement of Operations****Year Ended December 31, 2001****(in millions, except per share amounts)**

	<u>Viacom Historical</u>	<u>Blockbuster Historical</u>	<u>Pro Forma Adjustments</u>	<u>Effects of the Exchange</u>	<u>Viacom Pro Forma</u>
<b>Revenues</b>	\$ 23,222.8	\$ (5,156.7)	\$ 174.3(2b)	\$	\$ 18,240.4
Operating expenses	14,463.8	(2,420.7)	172.9(2b)		12,216.0
Selling, general and administrative expenses	4,092.4	(2,531.9)	0.1(2b) 3.2(2e)		1,563.8
Impairment and restructuring charges	119.4				119.4
Depreciation and amortization	3,087.0	(423.7)			2,663.3
<b>Operating income</b>	<u>1,460.2</u>	<u>219.6</u>	<u>(1.9)</u>		<u>1,677.9</u>
Interest expense, net	(938.6)	72.1			(866.5)
Other items, net	254.7	5.2			259.9
<b>Earnings before income taxes</b>	<u>776.3</u>	<u>296.9</u>	<u>(1.9)</u>		<u>1,071.3</u>
Provision for income taxes	(919.9)	(56.1)	(0.5)(4)		(976.5)
Equity in loss of affiliates, net of tax	(127.0)	(0.5)			(127.5)
Minority interest, net of tax	47.1		(43.6)(2a)		3.5
<b>Net loss before cumulative effect of accounting change</b>	<u>\$ (223.5)</u>	<u>\$ 240.3</u>	<u>\$ (46.0)</u>	<u>\$</u>	<u>\$ (29.2)</u>
<b>Net loss before cumulative effect per common share:</b>					
Basic	\$ (0.13)				\$ [ ]
Diluted	\$ (0.13)				\$ [ ]
<b>Weighted average number of common shares:</b>					
Basic	1,731.6			( ) (3)	[ ]
Diluted	1,731.6			( ) (3)	[ ]

The accompanying notes are an integral part of this  
unaudited pro forma consolidated condensed statement of operations.



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**NOTES TO VIACOM UNAUDITED PRO FORMA  
CONSOLIDATED CONDENSED FINANCIAL INFORMATION**

(tables in millions, except per share amounts)

**(1) Special Distribution**

Prior to the commencement of this exchange offer, Blockbuster will pay a special distribution of \$5.00 per share (approximately \$905 million in the aggregate) to its stockholders:

Special distribution of \$5.00 per share to Viacom 3,576,145 shares of Blockbuster class A common stock and 144,000,000 shares of Blockbuster class B common stock	\$ 737.9
Special distribution of \$5.00 per share to other Blockbuster stockholders 33,482,462 shares of Blockbuster class A common stock	167.4
<b>Special Distribution</b>	<b>\$ 905.3</b>

The special distribution will be funded by \$950 million of borrowings under a new \$1.45 billion credit agreement which Blockbuster intends to enter into with a syndicate of lenders. In connection with these borrowings, Viacom has agreed to reimburse Blockbuster approximately \$6.9 million of financing costs. This reimbursement has been reflected as a capital contribution in the Viacom unaudited pro forma consolidated condensed balance sheet.

**(2) Deconsolidation Adjustments**

(a) Adjustments to investment in Blockbuster of \$2.02 billion, other current liabilities of \$29.0 million, minority interest of \$465.4 million, and stockholders' equity of \$3.39 billion on the unaudited pro forma consolidated condensed balance sheet and minority interest in the unaudited pro forma consolidated condensed statements of operations reflect the reversal of consolidation entries to present Blockbuster as an unconsolidated subsidiary.

(b) Adjustments to accounts receivable, inventory, and accounts payable on the unaudited pro forma consolidated condensed balance sheet, and adjustments to revenues and expenses on the unaudited pro forma consolidated condensed statements of operations primarily reflect the reversal of intercompany eliminations for Blockbuster's purchase of DVD and VHS products from Paramount Pictures and advertising expenditures by Blockbuster on Viacom's various media platforms.

(c) The adjustment to other current assets of \$17.0 million reflects a tax sharing payment due to Viacom as of March 31, 2004 in accordance with the tax matters agreement between Viacom and Blockbuster. Adjustments to other current liabilities of \$10.7 million and other liabilities of

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\$(19.8) million reflect a reclassification of Blockbuster deferred tax attributes and an adjustment to foreign tax credit carryforwards whose benefits have previously been realized by Viacom on a consolidated basis.

(d) The adjustment to goodwill reflects the deconsolidation of goodwill resulting from Viacom's previous purchases of Blockbuster class A common stock acquired through open market purchases in order to maintain U.S. federal income tax consolidation with Blockbuster.

(e) Pursuant to agreements between Viacom and Blockbuster, Blockbuster is obligated to provide, at the completion of this exchange offer, a \$150 million letter of credit for the benefit of Viacom to support Viacom's potential liability for certain real estate lease obligations of Blockbuster. The adjustments on the Viacom unaudited pro forma consolidated condensed statements of operations of \$0.8 million for the three months ended March 31, 2004 and \$3.2 million for the years ended December 31, 2003, 2002 and 2001 reflect the agreement by Viacom to reimburse Blockbuster its annual cost related to this letter of credit.

### **(3) This Exchange Offer**

Viacom has offered to its stockholders [ ] shares of Blockbuster class B common stock and [ ] shares of converted class A common stock in exchange for each share of Viacom class A or class B common

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## NOTES TO VIACOM UNAUDITED PRO FORMA

## CONSOLIDATED CONDENSED FINANCIAL INFORMATION (Continued)

stock, which results in [ ] million shares of Viacom common stock being exchanged for [ ] million shares of Blockbuster class B common stock and [ ] shares of converted class A common stock currently owned by Viacom. The Viacom unaudited pro forma consolidated condensed financial statements assume the exchange offer is fully subscribed. If more than [ ] shares of Viacom class A and class B common stock, the minimum amount, but less than [ ] shares of Viacom class A and class B common stock, the number of shares of Viacom common stock that must be tendered in order for Viacom to distribute all of its shares of Blockbuster class B common stock and converted class A common stock in this exchange offer, are exchanged, Viacom will distribute in a spin-off to its stockholders the remaining shares of Blockbuster class B common stock and converted class A common stock that it owns. If the minimum number of shares of Viacom class A and class B common stock is tendered, Viacom will record a gain/(loss) on separation of Blockbuster from Viacom of \$[ ].

Total Blockbuster class B common stock owned by Viacom	[ ]
Total Blockbuster converted class A common stock owned by Viacom	[ ]
Subtotal	144,000,000
Exchange ratio	[ ]
Total Viacom shares tendered	[ ]
Estimated fair value of Viacom common stock tendered ([ ] shares at \$[ ] per share)	\$ [ ]
Less: Viacom's investment in Blockbuster's class B common stock and converted class A common stock, adjusted for the special distribution	[ ]
Contingent lease obligations (net of \$[ ] million of deferred tax assets)	[ ]
Transaction costs	[ ]
Gain/(loss) on separation of Blockbuster from Viacom	\$ [ ]

Transaction costs of [ ] include costs paid by Viacom on behalf of Blockbuster. Viacom will not record a tax benefit on these transaction costs.

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

Estimated market value of Blockbuster class A common stock (3,576,145 shares at \$[ ] per share)	\$ [ ]
Less: Viacom's investment in Blockbuster's class A common stock, adjusted for the special distribution	[ ]
Gain/(loss) on contribution of Blockbuster class A common stock	\$ [ ]

Upon this contribution, Viacom will realize a current tax benefit on the estimated market value of the Blockbuster class A common stock and a corresponding deferred tax expense of \$[ ] million. The resulting gain/(loss) on contribution of Blockbuster class A common stock will not be recognized for U.S. tax purposes.

**(4) Income Tax Expense**

Adjustments to income tax expense on the unaudited pro forma consolidated condensed statements of operations are calculated at a 39.9% domestic marginal tax rate, excluding certain transaction costs related to the letter of credit (See Note 2(e)) for which no tax benefit has been reflected, for the three months ended March 31, 2004 and the year ended December 31, 2003 and a 40.5% domestic marginal tax rate for the years ended December 31, 2002 and 2001.

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**BLOCKBUSTER UNAUDITED PRO FORMA  
CONSOLIDATED CONDENSED FINANCIAL INFORMATION**

Blockbuster's unaudited pro forma consolidated condensed statements of operations for the year ended December 31, 2003 and the three months ended March 31, 2004, and the unaudited pro forma consolidated balance sheet as of March 31, 2004 have been prepared based on Blockbuster's historical consolidated financial statements and accompanying notes included in this Prospectus-Offer to Exchange as Annex A and Annex B, respectively. This data is based on various assumptions and includes the adjustments explained in the accompanying notes. The unaudited pro forma consolidated condensed statements of operations assume that the pro forma events occurred as of January 1, 2003. The unaudited pro forma consolidated balance sheet assumes that the pro forma events occurred as of March 31, 2004.

The pro forma events include: (i) Blockbuster's borrowing of \$950 million under its new credit agreement and its payment of a special distribution to all of Blockbuster's stockholders of \$5.00 per share (approximately \$905 million in the aggregate); (ii) conversion of Blockbuster class B common stock to Blockbuster class A common stock; (iii) Blockbuster's new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco; and (iv) Viacom's split-off of Blockbuster.

Blockbuster's unaudited pro forma consolidated condensed financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have been achieved had the pro forma events described above in fact occurred as of the dates indicated or of the operating results or financial position that may be obtained in the future. Blockbuster believes the estimates and assumptions used to prepare its unaudited pro forma consolidated condensed financial information provide a reasonable basis for presenting the significant effects of the pro forma events discussed above, and that the pro forma adjustments give appropriate effect to the estimates and assumptions and are properly applied in Blockbuster's unaudited consolidated condensed financial information.

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

**Table of Contents****BLOCKBUSTER INC.****UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET**

At March 31, 2004

(in millions)

	<b>Blockbuster</b>		<b>Other</b>	
	<b>Historical</b>	<b>Special</b>	<b>Pro</b>	<b>Blockbuster</b>
	<b>Historical</b>	<b>Distribution(1)</b>	<b>Forma</b>	<b>Pro Forma</b>
	<b>Historical</b>	<b>Distribution(1)</b>	<b>Adjustments</b>	<b>Pro Forma</b>
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 137.0	\$ 35.6	\$	\$ 172.6
Receivables, net	162.2			162.2
Merchandise inventories	417.5			417.5
Prepaid assets and other current assets	161.2			161.2
<b>Total current assets</b>	<b>877.9</b>	<b>35.6</b>		<b>913.5</b>
Rental library, net	347.1			347.1
Property and equipment, net	808.9			808.9
Intangibles, net	34.5			34.5
Goodwill	2,627.7			2,627.7
Other assets	51.6	16.0		67.6
	<b>\$ 4,747.7</b>	<b>\$ 51.6</b>	<b>\$</b>	<b>\$ 4,799.3</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current Liabilities:				
Accounts payable	\$ 464.2	\$	\$	\$ 464.2
Accrued expenses	563.3		1.3 (4)	564.6
Payable to Viacom	29.0			29.0
Current portion of long-term debt	64.7	(50.0)		14.7
Current portion of capital lease obligations	20.8			20.8
Deferred taxes	3.3			3.3
<b>Total current liabilities</b>	<b>1,145.3</b>	<b>(50.0)</b>	<b>1.3</b>	<b>1,096.6</b>
Long-term debt	0.2	1,000.0		1,000.2
Capital lease obligations	73.1			73.1
Deferred taxes	47.2		(1.4)(4)	45.8
Other liabilities	119.5		1.2 (4)	120.7
	<b>1,385.3</b>	<b>950.0</b>	<b>1.1</b>	<b>2,336.4</b>
Commitments and contingencies:				
Stockholders' Equity:				



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Preferred stock				
Class A common stock	0.4		[ ](2)	[ ]
Class B common stock	1.4		[ ](2)	[ ]
Additional paid-in capital	6,225.9	(905.3)	2.1 (4)	5,329.6
		6.9		
Retained deficit	(2,826.0)		(3.2)(4)	(2,829.2)
Accumulated other comprehensive loss	(39.3)			(39.3)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders' equity	3,362.4	(898.4)	(1.1)	2,462.9
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	\$ 4,747.7	\$ 51.6	\$	\$ 4,799.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of this

unaudited pro forma consolidated balance sheet.

**Table of Contents****BLOCKBUSTER INC.****UNAUDITED PRO FORMA CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(in millions, except per share amounts)

	<b>Three Months Ended March 31, 2004</b>			
	<b>Blockbuster Historical</b>	<b>Special Distribution(1)</b>	<b>Other Pro Forma Adjustments(2)</b>	<b>Blockbuster Pro Forma</b>
Revenues	\$ 1,503.1	\$	\$	\$ 1,503.1
Cost of sales	579.5			579.5
<b>Gross profit</b>	<b>923.6</b>			<b>923.6</b>
Selling, general and administrative expenses	739.1		4.2	743.3
Depreciation	59.1			59.1
Amortization of intangibles	0.5			0.5
	<b>798.7</b>		<b>4.2</b>	<b>802.9</b>
<b>Operating income</b>	<b>124.9</b>		<b>(4.2)</b>	<b>120.7</b>
Interest expense and other items, net	(4.5)	(12.6)		(17.1)
<b>Income before income taxes</b>	<b>120.4</b>	<b>(12.6)</b>	<b>(4.2)</b>	<b>103.6</b>
Benefit (provision) for income taxes(3)	(7.8)	4.9	1.6	(1.3)
<b>Income before cumulative effect of change in accounting principle(4)</b>	<b>\$ 112.6</b>	<b>\$ (7.7)</b>	<b>\$ (2.6)</b>	<b>\$ 102.3</b>
<b>Income before cumulative effect of change in accounting principle per share:</b>				
Basic	\$ 0.62			\$ 0.57
Diluted	\$ 0.62	[ ]		\$ [ ]
<b>Weighted average shares:</b>				
Basic	181.0			181.0
Diluted	182.0	[ ]		[ ]

**Year Ended December 31, 2003**

	<b>Blockbuster Historical</b>	<b>Special Distribution(1)</b>	<b>Other Pro Forma Adjustments(2)</b>	<b>Blockbuster Pro Forma</b>
Revenues	\$ 5,911.7	\$	\$	\$ 5,911.7
Cost of sales	2,389.8			2,389.8

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Gross profit	3,521.9			3,521.9
Selling, general and administrative expenses	2,804.3		16.6	2,820.9
Depreciation	255.5			255.5
Impairment of goodwill and other long-lived assets	1,304.9			1,304.9
Amortization of intangibles	2.4			2.4
	4,367.1		16.6	4,383.7
Operating loss	(845.2)		(16.6)	(861.8)
Interest expense and other items, net	(30.4)	(50.2)		(80.6)
Loss before income taxes	(875.6)	(50.2)	(16.6)	(942.4)
Benefit (provision) for income taxes(3)	(103.2)	19.5	6.4	(77.3)
Equity in loss of affiliated companies, net of tax	(0.7)			(0.7)
Loss before cumulative effect of change in accounting principle(4)	\$ (979.5)	\$ (30.7)	\$ (10.2)	\$ (1,020.4)
Loss before cumulative effect of change in accounting principle per share basic and diluted	\$ (5.44)			\$ (5.67)
Weighted average shares basic and diluted	180.1			180.1

The accompanying notes are an integral part of these  
unaudited pro forma consolidated condensed statements of operations.

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**NOTES TO BLOCKBUSTER UNAUDITED PRO FORMA  
CONSOLIDATED CONDENSED FINANCIAL INFORMATION**

**(1) Special Distribution**

The adjustments to the unaudited pro forma consolidated balance sheet reflect the payment of the special distribution to all of Blockbuster's stockholders in the amount of \$5.00 per share (approximately \$905 million in the aggregate). The special distribution will be funded by \$950 million in borrowings under a new \$1.45 billion credit agreement to be entered into with a syndicate of lenders. The agreement will be comprised of three facilities: (i) a seven-year \$500 million revolving credit facility (of which \$150 million will be reserved for the Viacom letter of credit); (ii) a seven-year \$200 million Term A Loan Facility; and (iii) a seven-year \$750 million Term B Loan Facility. The facilities will bear interest equal to LIBOR plus an applicable margin which will vary based on specified leverage ratios. For purposes of calculating the pro forma interest expense, 3.10% was used as the assumed interest rate on one-half of the initial borrowings. These pro forma financial statements assume that Blockbuster will enter into a seven-year interest rate swap with a notional amount of \$475 million, which will convert one-half of the combined borrowings on the variable rate Term A and Term B Loan Facilities to fixed rate debt bearing interest at 6.89%. Blockbuster may issue debt securities in a public or private sale in lieu of a substantial portion of the proposed Term A and Term B Loan Facilities, in which case Blockbuster might or might not also enter into an interest rate swap with respect to the Term A and Term B Loan Facilities.

The borrowing availability under the revolving credit facility will be automatically reduced in equal quarterly installments aggregating 10% of the revolving credit commitment in each of years four through six, and one final installment of 70% at the end of year seven. The Term A Loan Facility will be payable in equal quarterly installments aggregating 15% of the original principal balance in each of the years two through five, and 20% in years six and seven. The Term B Loan Facility will be payable in equal quarterly installments aggregating 1% of the original principal balance in each of years two through four, 10% in years five and six, and 77% in year seven. The Term Loans are subject to mandatory prepayments from a portion of proceeds from assets sale and proceeds from certain future debt issuances. The new credit agreement includes financial covenants such as fixed charge coverage ratios and total leverage ratios. The facilities are secured by a pledge of stock of significant subsidiaries of Blockbuster, and are guaranteed by the domestic subsidiaries of Blockbuster. The facilities also include commitment fees on the unused portion of the revolving credit facility not subject to letters of credit and commission and fronting fees on letters of credit.

In connection with these borrowings, Blockbuster expects to recognize approximately \$16.0 million in deferred financing costs and to use the remaining \$35.6 million in borrowings as cash for working capital and general corporate purposes. Viacom has agreed to reimburse Blockbuster for approximately \$6.9 million of the deferred financing costs. This reimbursement has been reflected as a capital contribution in the unaudited pro forma consolidated balance sheet assuming that debt issuance costs were incurred on January 1, 2003.

The adjustments to interest expense in the unaudited pro forma consolidated condensed statements of operations reflect interest expense and the amortization of deferred financing costs on the new credit agreement. The estimate of additional interest expense is presented as if the borrowing occurred on January 1, 2003. The amortization of deferred financing costs is presented as if the financing costs were incurred on January 1, 2003 and amortized over the term of the agreement using the effective interest method. The summary of interest expense and amortization of deferred financing costs is as follows:

Year Ended	Three Months Ended
December 31, 2003	March 31, 2004

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Interest expense	\$	47.4	\$	11.9
Amortization of deferred financing costs		2.8		0.7
		<u>          </u>		<u>          </u>
Pro forma adjustment to interest expense	\$	50.2	\$	12.6
		<u>          </u>		<u>          </u>

An increase of  $\frac{1}{8}$  of 1% in the interest rate on the variable portion of the debt would have increased interest expense by approximately \$590,000 and \$150,000 for the year ended December 31, 2003 and the three months ended March 31, 2004, respectively.

**Table of Contents****NOTES TO BLOCKBUSTER UNAUDITED PRO FORMA****CONSOLIDATED CONDENSED FINANCIAL INFORMATION (Continued)**

In connection with the special distribution, Blockbuster intends to adjust its outstanding stock options which allow employees and directors to purchase shares of Blockbuster class A common stock. The adjustment would include a pro rata increase to the number of outstanding stock options and a pro rata decrease in the related exercise price. These adjustments would result in an increase in the number of outstanding stock options of [ ] million. The anticipated impact of this adjustment has been reflected in the Blockbuster pro forma Weighted average shares diluted and, as a result, the Blockbuster pro forma Net income per share diluted.

**(2) Other Pro Forma Adjustments**

The adjustments to the unaudited pro forma consolidated condensed statements of operations reflect the following:

	<b>Year Ended December 31, 2003</b>	<b>Three Months Ended March 31, 2004</b>
	<u>          </u>	<u>          </u>
Increased selling, general and administrative expenses from discontinuation of Viacom services	\$ 9.8	\$ 2.5
New employment agreement:		
Compensation expense for the vesting of restricted stock units	6.4	1.6
Increased salary	0.4	0.1
	<u>          </u>	<u>          </u>
Pro forma adjustment to selling, general and administration expenses	<u>\$ 16.6</u>	<u>\$ 4.2</u>

Viacom has historically provided Blockbuster certain services pursuant to a transition services agreement and has paid insurance premiums on behalf of Blockbuster for certain policies, subject to reimbursement by Blockbuster for these policies. The adjustments to the unaudited pro forma consolidated condensed statements of operations reflect Blockbuster's estimate of additional general and administrative expenses resulting primarily from the discontinuation of these arrangements totaling \$9.8 million and \$2.5 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively.

In connection with the split-off and related transactions, Blockbuster entered into a new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco. The adjustments to the unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated condensed statements of operations reflect the issuance of restricted share units with an aggregate value of approximately \$15.4 million. Approximately 1.0 million to 2.57 million restricted share units will be issued to Mr. Antioco based on the criteria outlined in the employment agreement. The restricted share units will be granted upon the distribution of control (as defined in Section 368(c) of the Internal Revenue Code of 1986, as amended) of Blockbuster. Half of the restricted stock units vest on the second anniversary of the distribution of control of Blockbuster and the other half vest on the third anniversary of the distribution of control of Blockbuster. The vested restricted share units are payable in cash immediately after Mr. Antioco's termination of employment or such later date as may be determined under the terms of the employment agreement at the average value of the Blockbuster class A and class B common stock on the date of termination. The adjustments to the pro forma consolidated condensed statements of operations reflect compensation expense related to the vesting of the restricted share units of \$6.4 million and \$1.6 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively. The adjustments to the pro forma consolidated condensed statements of operations also include an increase in Mr. Antioco's annual

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salary totaling \$0.4 million and \$0.1 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively, based upon the minimum amounts payable as set forth in the employment agreement. The employment agreement also calls for the issuance to Mr. Antioco of approximately 4.2 million to 5.0 million stock options for Blockbuster class A common stock. One-third of the options shall be granted on the fifth trading day after the distribution of control of Blockbuster, one-third on

**Table of Contents****NOTES TO BLOCKBUSTER UNAUDITED PRO FORMA****CONSOLIDATED CONDENSED FINANCIAL INFORMATION (Continued)**

the thirtieth day after the distribution of control of Blockbuster and the final third shall be awarded on the sixtieth day after the distribution of control of Blockbuster. The options vest ratably in three equal installments on the first, second and third anniversaries of the distribution of control of Blockbuster. These restricted stock units are accounted for in accordance with the variable plan accounting provisions of APB 25.

The adjustments to the unaudited pro forma consolidated balance sheet also reflect the conversion of shares of Blockbuster class B common stock to Blockbuster class A common stock in connection with this exchange offer. Prior to the conversion, 37.1 million shares of Blockbuster class A common stock and 144.0 million shares of Blockbuster class B common stock were outstanding. After the conversion, [ ] million shares of Blockbuster class A common stock and [ ] million shares of Blockbuster class B common stock will be outstanding.

**(3) Income Tax Expense (Benefit)**

The adjustments to the unaudited pro forma consolidated condensed statements of operations reflect the income tax benefit associated with the adjustments described in footnotes (1) and (2) at Blockbuster's domestic marginal tax rate of 38.9%.

**(4) Non-Recurring Charges**

Excluded from the unaudited pro forma consolidated condensed statements of operations are one time, non-recurring charges directly associated with the split-off and related transactions that do not affect future results of operations. The charges are summarized below:

<i>Pro forma adjustments to accrued liabilities:</i>	
Legal, accounting and business advisory fees	\$ 1.0
Costs to notify employees of changes to Blockbuster stock option plans	0.3
<i>Pro forma adjustments to other non-current liabilities:</i>	
Assumption of certain pension liabilities	0.8
Assumption of the liability for a self-funded long-term disability program	0.4
<i>Pro forma adjustment to additional paid-in capital:</i>	
Modification of Viacom options held by Blockbuster employees	2.1
	<hr/>
	4.6
Applicable income taxes	(1.4)
	<hr/>
Pro forma adjustment to retained deficit	\$ 3.2
	<hr/>

The Senior Executive Compensation Committee of Blockbuster's board of directors has approved in concept a plan to offer to its employees holding Blockbuster stock options the opportunity, at each optionholder's election, to exchange all, but not less than all, of their options for



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restricted stock of Blockbuster. However, optionholders with minimal holdings will likely be offered cash in lieu of restricted stock. A majority of the currently outstanding Blockbuster stock options have exercise prices in excess of Blockbuster's current stock price. The restricted stock exchange offer is intended to retain and motivate key employees as Blockbuster works toward implementing its new initiatives. Blockbuster expects that, upon completion, the restricted stock exchange offer would reduce the potential additional dilution created by the stock option adjustment referred to in the section entitled "Blockbuster Stock Option Matters - Stock Option Adjustment" on page 69.

The restricted stock exchange offer would result in a significant non-cash compensation charge to Blockbuster in future periods. The current estimate of this non-cash compensation charge to Blockbuster,

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**NOTES TO BLOCKBUSTER UNAUDITED PRO FORMA  
CONSOLIDATED CONDENSED FINANCIAL INFORMATION (Continued)**

assuming the restricted stock exchange offer is fully subscribed, is approximately \$80 to \$100 million in the aggregate. The non-cash compensation charge would be recognized over a vesting period of two to three years depending upon the final terms of the restricted stock exchange offer.

Blockbuster anticipates that the restricted stock exchange offer would take place after the split-off, but not necessarily after any spin-off. The specific timing and final terms of the restricted stock exchange offer will be determined by Blockbuster's Senior Executive Compensation Committee.

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**AGREEMENTS BETWEEN VIACOM  
AND BLOCKBUSTER AND OTHER RELATED PARTY TRANSACTIONS**

**Relationships Between Viacom and Blockbuster**

Viacom entered into the separation agreements with Blockbuster in connection with Blockbuster's initial public offering in August 1999 and a then-contemplated split-off and, on June 18, 2004, entered into amended and restated separation agreements in connection with this exchange offer. The separation agreements govern certain relationships between Viacom and Blockbuster relating to the split-off and are described below in this section.

**Initial Public Offering and Split-Off Agreement**

*General.* Viacom entered into an amended and restated initial public offering and split-off agreement with Blockbuster, which is referred to in this Prospectus-Offer to Exchange as the IPO agreement. The IPO agreement governs Viacom's and Blockbuster's respective rights and duties with respect to certain offerings of Blockbuster class A and class B common stock and other securities, including a split-off of Blockbuster or a similar transaction. In addition, the IPO agreement sets forth certain covenants to which Viacom and Blockbuster have agreed for various periods following Blockbuster's initial public offering and certain other provisions that are applicable in the event that Viacom decides to split off Blockbuster.

*Blockbuster Securities Offerings.* Blockbuster has agreed to cooperate with Viacom in all respects to accomplish any primary offerings of Blockbuster's common stock and other securities until the split-off. Blockbuster has also agreed that, at Viacom's direction, it will promptly take all actions necessary or desirable to effect the foregoing, including the registration under the Securities Act of shares of Blockbuster's capital stock that Viacom owns.

*The Split-Off.* Under the IPO agreement, subject to the provisions described in *Disposition of Control* below, Viacom has the right to determine, in its sole discretion, whether to proceed with a split-off and to abandon, modify or change the terms of the split-off. Blockbuster has agreed to cooperate with all of Viacom's commercially reasonable requests to accomplish the split-off and to promptly take all actions necessary or desirable to effect the split-off.

*Disposition of Control.* Viacom has agreed that, if Blockbuster pays the special distribution, Viacom will (1) use commercially reasonable efforts to promptly dispose of 80% or more of the aggregate voting power of Blockbuster's outstanding capital stock, which is referred to in this Prospectus-Offer to Exchange as *control of Blockbuster*, in a split-off exchange offer or in a split-off exchange offer in combination with a spin-off or (2) if it has not disposed of control of Blockbuster pursuant to clause (1), that it will dispose of control of Blockbuster in a spin-off, in either case prior to the earlier of (a) the 12-month anniversary of the date on which Viacom receives its pro rata share of the special distribution and (b) September 30, 2005, which is referred to in this Prospectus-Offer to Exchange as the *final disposition date*. Viacom is also subject to further contractual requirements regarding disposition of its shares of class B common stock and converted class A common stock, as described below under the caption *Conversion of Blockbuster Class B Common Stock*. Viacom, however, will not be required to, but may at its option, engage in any disposal and Viacom's obligations under this provision of the IPO agreement terminate if, at any time after the date on which Viacom receives its pro rata share of the special distribution, any of the following occurs (and solely (1) with respect to the second, third and fifth items described below, such item is occurring for the lesser of six months and the period between such occurrence and the final disposition date and (2) solely with respect to the second item described below, if a majority of the independent directors of Blockbuster, having been kept

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reasonably informed of the pursuit of a superior proposal (as defined below), determines that pursuit of such superior proposal is in the best interests of the Blockbuster stockholders other than Viacom):

Any condition or event has occurred, or Viacom reasonably expects any condition or event to occur, which Viacom reasonably believes would or would be likely to cause such disposition to be taxable to Viacom and its stockholders under U.S. federal income tax laws;

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Viacom notifies Blockbuster that it is in good faith pursuing a transaction involving Blockbuster (including, without limitation, a merger, consolidation, share sale or exchange, business combination, reorganization or recapitalization) that is reasonably likely to be consummated and is on terms that Viacom and a majority of the independent directors of Blockbuster determines, in their good faith judgment, to be more favorable to Blockbuster's stockholders than this exchange offer, which is referred to in this Prospectus-Offer to Exchange as a superior proposal;

There has occurred a market MAC (as described below);

There has occurred a material adverse change in the business, condition (financial or other), results of operations or stock price of Blockbuster, which is referred to in this Prospectus-Offer to Exchange as a Business MAC, provided that none of the following shall be deemed, in and of itself, to constitute a Business MAC: (1) any change resulting from the transactions contemplated by the IPO agreement, (2) any failure to meet published analyst forecasts or (3) the recognition of any restructuring or similar accounting charge which does not or will not have any effect on the cash flows of the business after June 18, 2004 ((1) and (2) do not exclude from the definition of Business MAC the events or factors which may have given rise to (1) or (2), but only the (1) or (2) themselves);

There has occurred a material adverse change in the business, prospects, condition (financial or otherwise) or results of operations of Viacom;

There have occurred any breaches of any of Blockbuster's covenants or agreements with Viacom set forth in the separation agreements that have not been cured within 30 days of notice thereof from Viacom, which breaches, in the aggregate, have had or are reasonably likely to have a material adverse effect on the expected benefits to Viacom of any such disposition, provided that during such 30-day cure period, Viacom shall have no obligation to consummate any such disposition;

Any action, litigation, suit, claim or proceeding is instituted that would be reasonably likely to enjoin, prohibit, restrain, make illegal, make materially more costly or materially delay completion of any such disposition, provided that Viacom and Blockbuster shall have used all commercially reasonable efforts to promptly and vigorously defend such action, litigation, suit, claim or proceeding;

Any order, stay, judgment or decree is issued by any U.S. federal or state court, government, governmental authority or other regulatory or administrative authority having jurisdiction over Viacom and Blockbuster and is in effect, or any law, statute, rule, regulation, legislation, interpretation, governmental order or injunction has been enacted or enforced, any of which would reasonably be likely to restrain, prohibit or delay completion of any such disposition or materially impair the contemplated benefits of any such disposition to Viacom or Blockbuster;

Any applicable registration statement necessary to register Blockbuster common stock being exchanged, distributed or sold by Viacom as part of such disposition has not been declared effective by the SEC, any stop order suspending the effectiveness of any such registration statement has been issued, or any proceeding for that purpose has been initiated by the SEC and not concluded or withdrawn; or

The shares of Blockbuster class B common stock issuable in such disposition have not been approved for listing on the New York Stock Exchange, subject to official notice of issuance.

A market MAC is defined in the IPO agreement to mean the occurrence or imminent occurrence of any of the following events: (i) any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market in the United States; (ii) any extraordinary or material adverse change in U.S. financial markets generally, including, without limitation, a decline of at least 15% in either the Dow Jones Average of Industrial Stocks or the Standard & Poor's 500 Index within a period of 60 consecutive days or less occurring after the date of the IPO agreement; (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States; (iv) a commencement of a war (whether declared or undeclared), armed hostilities or other national or international calamity, including an act of terrorism, directly or indirectly involving the United States, which would reasonably be expected to affect



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materially and adversely, or to delay materially, the completion of the disposition contemplated by this provision of the IPO agreement; or (v) if any of the situations above exists at the date of June 18, 2004, the situation deteriorates materially.

The IPO agreement provides that the items listed above are not intended to constitute all of the occurrences following which it may not be commercially reasonable for Viacom to dispose of control of Blockbuster pursuant to a split-off or a split-off in combination with a spin-off. In addition, the IPO agreement provides that even if Blockbuster pays the special distribution, Viacom will not be obligated to use commercially reasonable efforts to dispose of control of Blockbuster if, at any time prior to the declaration of the special distribution by Blockbuster's board of directors, Viacom notifies Blockbuster in writing that it does not intend to proceed with the disposition of its control of Blockbuster.

*Conversion of Blockbuster Class B Common Stock.* Viacom and Blockbuster have agreed to certain provisions related to Blockbuster's equity capitalization.

*Blockbuster Equity Capitalization and Voting Power of Blockbuster Class B Common Stock Following this Exchange Offer.* Viacom anticipates that, immediately prior to the expiration of this exchange offer, it will beneficially own less than 80% of the economic value of Blockbuster. If that is the case, then prior to the expiration of this exchange offer and subject to the adjustment described below, Viacom will convert shares of Blockbuster class B common stock on a one-for-one basis into shares of Blockbuster class A common stock such that, following the conversion, 40% of Blockbuster's total common stock outstanding will be Blockbuster class B common stock, and 60% of Blockbuster's total common stock outstanding will be Blockbuster class A common stock. Immediately prior to the expiration of this exchange offer, Viacom will confirm (based upon information provided by Blockbuster about its capital structure) that it would, assuming this exchange offer is fully subscribed and shares of Blockbuster class B common stock are so converted, be distributing 80% or more of the aggregate voting power of Blockbuster. For purpose of this determination, the following quotient must be greater than 0.80:

tentative class B common stock votes plus tentative converted class A common stock outstanding

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pro forma class A common stock outstanding plus tentative class B common stock votes

plus tentative converted class A common stock outstanding

If this quotient is less than or equal to 0.80, then the percentage of Blockbuster's total common stock outstanding following the conversion (which would occur immediately prior to completion of this exchange offer) that will be Blockbuster class B common stock will be increased from 40%, in 1% increments, until this quotient is greater than 0.80. The number of shares of Blockbuster class B common stock that Viacom will convert into shares of Blockbuster class A common stock will be decreased accordingly.

One business day following the later of (1) the closing settlement date of this exchange offer and (2) unless Viacom elects not to do a spin-off, the closing settlement date of any subsequent spin-off, Viacom will determine whether Viacom has distributed control of Blockbuster. For purpose of this determination, the following quotient must be greater than 0.80:

tentative class B common stock votes plus tentative converted class A common stock outstanding

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modified pro forma class A common stock outstanding plus tentative class B common stock votes

plus tentative converted class A common stock outstanding

If this quotient is greater than 0.80, then in accordance with the IPO agreement and Blockbuster's amended certificate of incorporation, the number of votes per share of Blockbuster class B common stock will be decreased from 5.0, in 0.5 vote increments, until such quotient is greater than 0.80 but cannot be decreased any further by a 0.5 increment without such quotient going below 0.80. In no event will the number of votes per share of Blockbuster class B common stock be decreased below two votes per share.



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For purposes of these calculations:

Modified pro forma class A common stock outstanding means, without duplication, (1) the number of shares of Blockbuster class A common stock (including any restricted shares) outstanding, plus (2) the number of shares of Blockbuster class A common stock to be issued to settle previously exercised employee stock options, plus (3) 14 million shares of restricted Blockbuster that may be issued pursuant to a restricted stock exchange offer, plus (4) the number of shares of restricted stock or stock units that may be settled in Blockbuster common or preferred stock which have been granted to Blockbuster's chairman and chief executive officer, but only to the extent an election pursuant to Section 83(b) of the Internal Revenue Code has been made or there is a commitment by Blockbuster to accelerate the vesting of such restricted stock or stock units other than pursuant to the terms of the employment agreement under which they were granted.

Pro forma class A common stock outstanding means (1) the number of shares of Blockbuster class A common stock (including any restricted shares) outstanding, plus (2) the number of shares of Blockbuster class A common stock to be issued to settle previously exercised employee stock options, plus (3) the number of shares of Blockbuster class A common stock issuable pursuant to specified employee stock options, plus (4) 14 million shares of restricted stock that may be issued pursuant to a restricted stock exchange offer, plus (5) an amount of not more than 30,000 shares of Blockbuster class A common stock that may be issued to directors as directors' fees plus (6) an amount of not more than 20,000 shares of Blockbuster class A common stock that may be issued under Blockbuster's Chairman's Award Plan, plus (7) the number of restricted stock or stock units that may be settled in Blockbuster common or preferred stock which have been granted to Blockbuster's chairman and chief executive officer, but only to the extent an election pursuant to Section 83(b) of the Internal Revenue Code has been made or there is a commitment by Blockbuster to accelerate the vesting of such restricted stock or stock units other than pursuant to the terms of the employment agreement under which they were granted, plus (8) the number of shares of Blockbuster common or preferred stock issuable in settlement of all other existing obligations.

Total common stock outstanding means the sum (measured as of the date of Blockbuster's capital structure notice preceding the commencement of this exchange offer, and not the completion of this exchange offer) of (1) the number of shares of Blockbuster class A common stock outstanding (including any restricted shares), (2) the number of shares of Blockbuster class A common stock to be issued to settle previously exercised employee stock options, (3) 144 million (the number of shares of Blockbuster class B common stock outstanding and owned by Viacom at the commencement of this exchange offer) and (4) the number of shares (if any) issued to Viacom or its affiliates pursuant to the provision of the IPO agreement described below under "Options".

Tentative class B common stock votes means 5 multiplied by 40% of the total common stock outstanding.

Tentative converted class A common stock outstanding means 144 million less 40% of the total common stock outstanding.

*Alternative Blockbuster Equity Capitalization and Voting Power of Blockbuster Class B Common Stock Following this Exchange Offer.* If, immediately prior to the expiration of this exchange offer, Viacom beneficially owns 80% or more of the economic value of Blockbuster, Viacom will amend the terms of this exchange offer to provide that it will convert shares of Blockbuster class B common stock on a one-for-one basis into shares of Blockbuster class A common stock such that, following the completion of the amended exchange offer, 20% of Blockbuster's total common stock outstanding will be Blockbuster class B common stock, and 80% of Blockbuster's total common stock outstanding will be Blockbuster class A common stock. Adjustments will be made to these percentages, and to the number of votes per share of Blockbuster class B common stock, that are similar to those described above, except that the number of votes per share of Blockbuster class B common stock will not be lower than three votes per share.

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*Related Covenants.* In connection with these provisions, Viacom and Blockbuster have agreed to the following:

*Viacom's Disposition of Blockbuster Class B Common Stock and Commitment to Complete Spin-Off.* Viacom has agreed not to sell, transfer or otherwise dispose of any shares of Blockbuster class B common stock or converted class A common stock other than pursuant to this exchange offer or a spin-off distribution to Viacom's stockholders (which may or may not be preceded by an exchange offer). Viacom has agreed that if it completes an exchange offer, Viacom will distribute in a spin-off to its stockholders as soon as practicable all its remaining shares of Blockbuster class B common stock and converted class A common stock. However, if Viacom distributes more than 80% of the aggregate voting power of Blockbuster's outstanding capital stock in this exchange offer or a subsequent spin-off, Viacom may elect not to distribute its remaining shares in a spin-off, so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in a spin-off, in each case after giving effect to the adjustment described above.

*Restrictions on Issuances of Blockbuster Stock.* Blockbuster has agreed that it will not (1) authorize, grant or issue any shares of common or preferred stock or any restricted stock units that may be settled in Blockbuster common or preferred stock, except with respect to (a) the exercise of certain employee stock options, (b) up to 14 million shares of Blockbuster class A common stock pursuant to a restricted stock exchange offer, (c) up to 20,000 shares of Blockbuster class A common stock pursuant to Blockbuster's Chairman's Award Plan, (d) up to 30,000 shares of Blockbuster class A common stock that may be issued to directors as director's fees, (e) restricted stock or stock units that could be settled in Blockbuster common or preferred stock awarded to Blockbuster's chairman and chief executive officer, (f) shares issued to settle certain other stock obligations and (g) shares issued pursuant to the provisions of the IPO agreement described below under "Options", (2) accelerate the vesting of certain employee stock options and (3) grant stock options that will become exercisable before the termination of this covenant.

*Blockbuster Optionholder Agreements.* Blockbuster has agreed to use commercially reasonable efforts to have its executive officers (within the meaning of Section 16 of the Securities Exchange Act of 1934) agree not to exercise employee stock options from four business days prior to the commencement of this exchange offer, until the termination of the covenants described in this section. The executive officers will not be restricted from exchanging their employee stock options for shares of restricted stock pursuant to a restricted stock exchange offer, such as the one described under "Blockbuster Stock Option Matters - Proposed Restricted Stock Program."

*Failure to Provide Information.* If Blockbuster fails to provide the information required for any of the calculations described above, Viacom may refuse to proceed with this exchange offer.

*Termination of Covenants.* The covenants described in this section will terminate upon the earliest of (1) the date on which the number of votes per share of Blockbuster class B common stock are adjusted as described above, (2) the date on which Viacom elects not to proceed with an exchange offer or spin-off as a result of its obligations described above under "Disposition of Control" having terminated, (3) the 12-month anniversary of the distribution date of the special dividend and (4) September 30, 2005.

*Further Assurances.* Viacom and Blockbuster have further agreed to transfer to the other any asset, liability, obligation or commitment that relates exclusively to the other's business.

*Expenses.* Unless otherwise provided for in the IPO agreement or any other agreement, Blockbuster has generally agreed to pay all costs and expenses relating to any primary offerings of Blockbuster's common stock

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while Viacom controls Blockbuster and Viacom has generally agreed to pay all costs and expenses of Blockbuster relating to the split-off.

*Confidentiality.* Viacom and Blockbuster have agreed to keep nonpublic information provided by one party to the other confidential for a specified period of time, and to restrict the use of each other's third party information. In addition, Viacom has agreed to use specified categories of business information provided to it by Blockbuster only in connection with Viacom's and Blockbuster's prior relationship.

*Access to Information.* Generally, Viacom and Blockbuster have agreed to provide each other with, upon written request and subject to specified conditions, and for a specified period of time, access to information relating to the assets, business and operations of the requesting party. Viacom and Blockbuster have agreed to keep their books and records for a specified period of time. In addition, Viacom has agreed with Blockbuster to cooperate with one another to allow access to one another's employees, to the extent necessary, to discuss and explain all requested information mentioned above and with respect to any claims brought against the other, or any regulatory proceedings, investigations, comments or review to which the other is subject, relating to the conduct of Blockbuster's business while Viacom controls Blockbuster.

*Covenants.* Blockbuster and Viacom have agreed to the following:

*Financial and Other Information.* Until Blockbuster's results are no longer consolidated with Viacom's for accounting purposes, which is referred to in this Prospectus-Offer to Exchange as the deconsolidation date, Blockbuster has agreed: (i) to maintain internal controls; (ii) to maintain the same fiscal year-end as Viacom; (iii) to deliver certain financial information to Viacom; (iv) to deliver to Viacom drafts of quarterly and annual financial statements, certifications, releases and SEC filings; (v) not to file quarterly and annual reports with the SEC without Viacom's reasonable consent; (vi) to deliver to Viacom other SEC reports and filings and not file such reports or filings without Viacom's reasonable consent; (vii) to deliver to Viacom copies of budgets and financial projections; (viii) to deliver to Viacom copies of all press releases; (ix) to discuss changes of its independent public accountants with its and Viacom's audit committee; (x) to make its auditors available to Viacom and Viacom's auditors; (xi) not to make changes in its accounting estimates or principles without consulting with Viacom and without Viacom's reasonable consent; and (xii) to make changes to accounting principles requested by Viacom. Viacom and Blockbuster have also generally agreed to cooperate with each other, and cause their accountants to cooperate, in making all reports, submissions and other public filings and to involve the other party in any SEC comment, review or investigation prior to the split-off. Certain of the foregoing covenants extend beyond the deconsolidation date for transition purposes, such as to facilitate future SEC filings by Viacom and Blockbuster and the preparation or amendment of financial statements relating to periods prior to the deconsolidation date. Viacom has agreed to consult with Blockbuster regarding changes in its accounting estimates and principles that would have an impact on Blockbuster. For the period following the split-off, Viacom and Blockbuster have also agreed to give each other notice and consult with each other and each other's accountants if determinations of or changes to accounting estimates or principles which relate to the period prior to the split-off are made.

*No Violations.* The IPO agreement also provides that until Viacom owns less than 50% of the equity value of the outstanding Blockbuster common stock, Blockbuster may not take any action or enter into any commitment or agreement that may reasonably be anticipated to result, with or without notice and with or without lapse of time, or otherwise, in a contravention, or an event of default, by Viacom of: (i) any provision of applicable law or regulation, including but not limited to provisions pertaining to the Internal Revenue Code of 1986, as amended, which is referred to in this Prospectus-Offer to Exchange as the Internal Revenue Code, or the Employee Retirement Income Security Act of 1974, as amended; (ii) any provision of Viacom's amended and restated certificate of incorporation or bylaws, which is referred to in this Prospectus-Offer to Exchange as Viacom's certificate of incorporation and Viacom's bylaws, respectively; (iii) any credit agreement or other material instrument binding upon

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Viacom; or (iv) any judgment, order or decree of any governmental body, agency or court having jurisdiction over Viacom or any of its assets.

*Litigation Matters.* Viacom and Blockbuster have agreed to cooperate with each other and provide each other access to employees of the other in connection with litigations, proceedings or investigations.

*Real Estate Matters.* Blockbuster has agreed to use reasonable efforts consistent with past practice to terminate, cancel, replace or substitute Viacom and its affiliates' guarantees of certain of Blockbuster's leases. Blockbuster has also agreed to limit its ability to renew certain guaranteed leases early, to amend or modify guaranteed leases in a manner that increases Viacom's liability over a limited basket and to endeavor to obtain similar commitments from assignees of guaranteed leases. Blockbuster has further agreed to provide to Viacom, at Viacom's expense, the Viacom letter of credit in an amount not to exceed \$150 million or, if lower, 75% of the fully-loaded lease obligations under all guaranteed leases, drawable in the event that Viacom or its affiliates are required to make payments in respect of any guaranteed leases, or if Blockbuster fails to provide a replacement letter of credit within 15 business days prior to expiration of the then current Viacom letter of credit.

*Non-D&O Insurance Matters.* Viacom and Blockbuster have agreed that insurance coverage provided by one to the other will cease after the split-off occurs. Ceasing coverage will not affect Viacom and Blockbuster's rights to insurance coverage under each other's policies for occurrences occurring prior to the split-off (for occurrence based policies) and claims arising under the applicable claims period (for claims based policies).

*Common Agreements.* Viacom has agreed to reasonably cooperate with Blockbuster in order to provide Blockbuster with the ability to enforce the rights and benefits Blockbuster would have had under vendor agreements to which Viacom is a party and under which Blockbuster currently receives goods or services, had Blockbuster been an actual party until the expiration of those agreements. Viacom and Blockbuster have agreed to indemnify each other for losses incurred as a result of certain third party claims arising under or with respect to those agreements.

*Intercompany Accounts.* Viacom and Blockbuster have agreed to continue settling certain intercompany charges which are currently settled through an existing intercompany settlement process in the same manner.

*Employee Benefits Matters.* Viacom has agreed to retain the accrued liability for benefits for current and former employees of Blockbuster under Viacom's qualified defined benefit pension plan. Blockbuster participants will be eligible to receive accrued benefits under the pension plan in accordance with its terms upon their separation from service with Blockbuster. Blockbuster will indemnify Viacom for taking certain actions that increase Viacom's liability under the pension plan. The amount of the indemnity will be determined by the amount of the actuarial loss experienced by Viacom as a result of such Blockbuster action. After the first \$1 million of such actuarial losses, Blockbuster will indemnify Viacom for the next \$4 million of such losses. Blockbuster has agreed to assume liabilities attributable to current and former employees of Blockbuster in Viacom's nonqualified defined benefit pension plan, with the amount of such assumed liability to be capped at \$800,000. In addition, following the split-off, Viacom will cease to provide Blockbuster with any insurance coverage for the provision of benefits under certain insured employee benefit plans and programs and Blockbuster has agreed to assume liabilities for two former Blockbuster employees who, as of the date of the split-off, are receiving payments under a self-funded long-term disability program. Blockbuster has also agreed to assume liabilities under employment agreements that, prior to the split-off, were between Blockbuster Entertainment Group, a business unit of Viacom, and certain employees. The IPO agreement also contains provisions with respect to cessation of coverage under Viacom's emergency evacuation service and the removal of Viacom and Blockbuster from certain of the other party's international pension and health programs.

*Wherehouse Lease Guarantees.* In October 1998, about 380 BLOCKBUSTER MUSIC stores were sold to Wherehouse. Some of the leases transferred in connection with this sale had previously been guaranteed either by

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Viacom or its affiliates. Under the IPO agreement, Blockbuster agreed to perform all duties, obligations and liabilities of Viacom International Inc. under the agreements governing the sales of the music stores to Wherehouse, including to indemnify Viacom with respect to any amount paid under these guarantees. On January 21, 2003, Wherehouse filed a petition for protection under Chapter 11 of U.S. bankruptcy law. Based on information regarding lease and guaranty expirations originally available in connection with the Wherehouse bankruptcy, Blockbuster estimated that it was contingently liable for approximately \$36.0 million. Of this amount, Blockbuster initially recorded a reserve of \$18.7 million, which represented its estimate of the undiscounted lease guarantee obligation associated with stores that Wherehouse had indicated at that time that it would vacate. During 2003 and the first quarter of 2004, Blockbuster paid approximately \$8.2 million associated with the lease guarantee obligation. In addition, during the fourth quarter of 2003, based upon an estimated remaining contingent liability of \$12.6 million, Blockbuster reduced its reserve by \$2.6 million, resulting in a remaining reserve balance of \$7.9 million at March 31, 2004.

*Options.* Blockbuster granted to Viacom International Inc. a continuing option, assignable to Viacom and any of its subsidiaries, to purchase, under specified circumstances, additional shares of Blockbuster's class B common stock or any shares of Blockbuster's nonvoting capital stock. These options may be exercised immediately prior to the issuance of any of Blockbuster's equity securities: (i) with respect to shares of Blockbuster's class B common stock, only to the extent necessary to maintain Viacom International Inc.'s then-existing percentage of equity value and combined voting power of Blockbuster's two outstanding classes of common stock; and (ii) with respect to shares of nonvoting capital stock, to the extent necessary to own 80% of each outstanding class of such stock. The purchase price of the shares of Blockbuster's class B common stock purchased upon any exercise of the options, subject to specified exceptions, is based on the market price of Blockbuster's class A common stock. The purchase price of nonvoting capital stock is the price at which such stock may be purchased by third parties. This option terminates when Viacom or its affiliates own less than 45% of the equity of Blockbuster.

*Indemnification Procedures.* The IPO agreement sets forth the procedures that Viacom and Blockbuster are required to undertake if either Viacom or Blockbuster demands to be indemnified by the other under any indemnification right given in any of the agreements between Viacom and Blockbuster, other than the amended and restated tax matters agreement and director and officer indemnification and guarantee discussed below.

## **Release and Indemnification Agreement**

Viacom entered into an amended and restated release and indemnification agreement with Blockbuster, which is referred to in this Prospectus-Offer to Exchange as the indemnification agreement, under which Viacom and Blockbuster have agreed to indemnify each other and to release each other with respect to the matters described below.

*Indemnification Relating to Blockbuster's and Viacom's Assets, Businesses and Operations.* Blockbuster agreed to indemnify Viacom and hold Viacom and certain of its affiliates and their respective officers, directors, employees, agents, heirs, executors, successors and assigns harmless against any payments, losses, liabilities, damages, claims and expenses and costs arising out of or relating to:

Blockbuster's past, present and future assets, businesses and operations and other assets, businesses and operations managed by Blockbuster or persons previously associated with Blockbuster, except for assets, businesses and operations of Paramount Parks Inc., Spelling Entertainment Group Inc. and its subsidiaries, including Republic Entertainment Inc. and Worldvision Inc., Showtime Networks Inc., Virgin Interactive Entertainment Limited and Virgin Interactive Entertainment Inc.; and

payments, expenses and costs that Viacom paid to a third party associated with the transfer of Blockbuster's assets, businesses and operations from certain of Viacom's entities to Blockbuster and its subsidiaries.



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Viacom similarly agreed to indemnify Blockbuster and certain of its affiliates, and their respective officers, directors, employees, agents, heirs, executors, successors and assigns, for Viacom's past, present and future assets, businesses and operations, except for assets, businesses and operations for which Blockbuster has agreed to indemnify Viacom. In addition, the IPO agreement discussed above and the transition services agreement, the registration rights agreement and the amended and restated tax matters agreement discussed below provide for indemnification by Viacom and Blockbuster of the other party relating to the substance of such agreements.

*Indemnification Relating to Blockbuster's Initial Public Offering and Other Offerings.* Blockbuster generally agreed to indemnify Viacom and certain of its affiliates against all liabilities arising out of any material untrue statements and omissions in any prospectus and any related registration statement filed with the SEC relating to Blockbuster's initial public offering or any other primary offering of Blockbuster's securities while Viacom controls Blockbuster. However, Blockbuster's indemnification of Viacom does not apply to information relating to Viacom, excluding information relating to Blockbuster. Viacom agreed to indemnify Blockbuster for such information.

*Indemnification Relating to the Split-Off.* Blockbuster and Viacom have agreed to indemnify each other and each other's affiliates against all liabilities arising out of any material untrue statements and omissions in specified sections of any prospectus, information memorandum or registration statement filed with the SEC relating to the split-off. Neither Blockbuster's nor Viacom's indemnification obligations apply to information furnished in writing by one party to the other for inclusion in any split-off prospectus, information memorandum or registration statement, and each of Blockbuster and Viacom have agreed to indemnify the other for any such furnished information. Viacom's indemnification obligation also does not apply to any information previously submitted to Viacom by Blockbuster in any representation or bring down letter, and Blockbuster has agreed to indemnify Viacom for information subject to such a representation letter.

*Release Relating to Actions Related to Viacom's and Blockbuster's Assets, Businesses and Operations.* Subject to certain exceptions, Blockbuster has released Viacom and certain of its subsidiaries and affiliates and their respective officers, directors, employees, agents, heirs, executors, successors and assigns for all losses for any and all actions and failures to take action prior to August 16, 1999 (the date of Blockbuster's initial public offering) relating to Viacom's and Blockbuster's assets, businesses and operations. Viacom has similarly released Blockbuster.

*Further Agreements.* Viacom and Blockbuster have agreed to do all things reasonably necessary to maintain and conduct each party's business and operations and to comply with each party's existing agreements.

## **Transition Services Agreement**

Blockbuster and Viacom have entered into an amended and restated transition services agreement, which is referred to in this Prospectus-Offer to Exchange as the transition services agreement and which will become effective on the earlier of the first day after the consummation of this exchange offer and the disposition by Viacom of shares representing 80% of the total voting power of Blockbuster. References to the transition services agreement in this Prospectus-Offer to Exchange assume the effectiveness of this amended and restated agreement. Pursuant to the transition services agreement, Viacom will provide Blockbuster with agreed-upon audit and control, intellectual property, legal and tax services and employee benefit plan and insurance administration. These services may be changed upon agreement between Blockbuster and Viacom. Blockbuster will pay Viacom a fee for these services of \$150,000 per month, and will reimburse Viacom for its out-of-pocket costs and expenses. Viacom will cease to provide services under the transition services agreement 90 days after the completion of this exchange offer. Blockbuster cannot assure you that it will be able to provide these services internally or find a third party provider of such services on acceptable terms, if at all, after Viacom no longer provides them.





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### **Registration Rights Agreement**

Viacom has entered into an amended and restated registration rights agreement with Blockbuster which requires Blockbuster, upon Viacom's request, to use its reasonable best efforts to register under the applicable federal and state securities laws any of the shares of Blockbuster equity securities held by Viacom and its affiliates for disposition in accordance with the intended method of disposition, and to take such other actions as may be necessary to permit the sale in other jurisdictions, subject to specified limitations. Viacom and its affiliates also have the right to include shares of Blockbuster equity securities beneficially owned in other registrations of these equity securities that Blockbuster initiates. Except for Blockbuster's legal and accounting fees and expenses, the registration rights agreement provides that Viacom generally pay all or its pro rata portion of out-of-pocket costs and expenses relating to each such registration that Viacom requests or in which Viacom participates.

In addition, the registration rights agreement required Blockbuster to file, within ten days of the initial filing of the Registration Statement of which this Prospectus-Offer to Exchange is a part, both a registration statement on Form S-3 to facilitate the public resale of Blockbuster class A common stock that Viacom purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster and a registration statement on Form S-3 to facilitate the public resale of any Blockbuster class A and class B common stock received by NAIRI, Mr. Sumner M. Redstone or any of their respective affiliates in any spin-off. Blockbuster filed these registration statements on Form S-3 on June 28, 2004. Blockbuster is required to use its reasonable best efforts to cause these registration statements, respectively, to be declared effective by the SEC at or prior to the time the registration statement of which this Prospectus-Offer to Exchange is a part is declared effective, and at or prior to the time of the distribution date of such spin-off. See the section entitled "Spin-Off and Dispositions of Blockbuster Common Stock" on page 68. Viacom will pay all or its pro rata portion of out-of-pocket costs and expenses, including Blockbuster's legal and accounting fees and expenses, relating to these two registrations.

Subject to specified limitations, the registration rights will be assignable by Viacom and its assigns. The registration rights agreement contains indemnification and contribution provisions that are customary in transactions similar to those contemplated by the registration rights agreement.

### **Tax Matters Agreement**

After the completion of Blockbuster's initial public offering, Blockbuster and certain of its subsidiaries continued to be included in Viacom's consolidated group for U.S. federal income tax purposes and its combined, consolidated or unitary group for various state and local income tax purposes. At the time of the initial public offering, Viacom entered into a tax matters agreement with Blockbuster pursuant to which, for the taxable years and portions thereof prior to August 16, 1999, Viacom agreed to pay all taxes for the consolidated group, including any liability resulting from adjustments to tax returns relating to such taxable years or portions thereof. Blockbuster and its subsidiaries continue to be liable for all taxes that are imposed on a separate return basis or on a combined, consolidated or unitary basis on a group of companies that includes only Blockbuster and its subsidiaries. Blockbuster and Viacom entered into an amended and restated tax matters agreement, which is referred to in this Prospectus-Offer to Exchange as the "tax matters agreement" and which becomes fully effective on the first day following the consummation of this exchange offer. References to the tax matters agreement in this Prospectus-Offer to Exchange assume full effectiveness of this amended and restated agreement.

The tax matters agreement requires Blockbuster to make payments to Viacom equal to the amount of income taxes which would be paid by Blockbuster, subject to certain adjustments, if Blockbuster had filed a stand-alone return for any taxable year or portion thereof beginning after August 16, 1999 in which it is included in the consolidated group. This would include any amounts determined to be due as a result of a redetermination of the tax liability of Blockbuster arising from an audit or otherwise. With respect to some tax items attributable to Blockbuster for periods following August 16, 1999, such as foreign tax credits, alternative minimum tax



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credits, net operating losses and net capital losses, Blockbuster has a right of reimbursement or offset, which is determined based on the extent to which, and the time at which, such credits or losses could have been used by Blockbuster if it had not been included in the consolidated group. This right to reimbursement or offset continues regardless of whether Blockbuster is a member of the consolidated group at the time the attributes could have been used. Blockbuster is only entitled to reimbursement for carryback items that it could use on a stand-alone basis to the extent that such items result in an actual tax savings for the consolidated group. Pursuant to the tax matters agreement, Blockbuster has agreed to pay Viacom an amount equal to any tax benefit Blockbuster receives from the exercise of options to acquire Viacom common stock by Blockbuster's employees plus one-half of the amount of any tax benefit that Blockbuster would have received but for certain tax limitations. Blockbuster will also be responsible for the payment of income taxes with respect to income tax returns that include only Blockbuster, which returns, as described below, Viacom will file during periods that Blockbuster is a member of the Viacom consolidated group for federal income tax purposes.

Viacom is the sole and exclusive agent for Blockbuster in any and all matters relating to income taxes of the Viacom consolidated group. Viacom has sole and exclusive responsibility for the preparation and filing of all income tax returns or amended returns with respect to the Viacom consolidated group, and has the sole right to contest or compromise any asserted tax adjustment or deficiency and to file, litigate or compromise any claim for refund on behalf of the consolidated group, except that Viacom is not entitled to compromise any such matter in a manner that would affect Blockbuster's liability under the tax matters agreement without Blockbuster's consent, which may not be unreasonably withheld. Pursuant to the tax matters agreement, Blockbuster has similar authority with respect to income tax returns that Blockbuster files on a separate basis. The tax matters agreement may result in conflicts of interest between Viacom and Blockbuster.

Each member of the consolidated group for U.S. federal income tax purposes will be liable for the U.S. federal income tax liability of each other member of the consolidated group. Similar principles will apply with respect to members of a combined group for state and local tax purposes. Accordingly, although the tax matters agreement allocates tax liabilities between Viacom and Blockbuster during the period in which Blockbuster is included in the consolidated group, Blockbuster could be liable for the U.S. federal income tax liability of any other member of the consolidated group in the event any such liability is incurred, and not discharged, by such other member. The tax matters agreement provides, however, that Viacom will indemnify Blockbuster to the extent that, as a result of being a member of the consolidated group, Blockbuster will become liable for the U.S. federal income tax liability of any other member of the consolidated group, other than Blockbuster's subsidiaries.

In the tax matters agreement, Blockbuster agrees that, during the two-year period following the completion of this exchange offer or, if applicable, the spin-off, Blockbuster and its subsidiaries will not enter into certain types of transactions, including sales of significant amounts of assets, certain mergers, liquidations, significant stock issuances, and certain stock redemptions, without Viacom's consent unless Blockbuster receives a private letter ruling from the Internal Revenue Service or an opinion of counsel chosen by Viacom to the effect that such transaction will not adversely affect the tax-free status of this exchange offer and, if applicable, the spin-off. Blockbuster is generally responsible for, among other things, any taxes imposed on Viacom or its subsidiaries as a result of this exchange offer and, if applicable, the spin-off failing to qualify as a tax-free transaction on account of any breach of representations made with respect to Blockbuster or caused by any action or failure to act by Blockbuster or its subsidiaries or any significant transaction involving Blockbuster's, or Blockbuster's subsidiaries', assets, stock or business following this exchange offer and, if applicable, the spin-off, regardless of whether such transaction is within Blockbuster's control.

## **Judgment Sharing Agreement**

In connection with certain revenue sharing antitrust cases in which they are among the defendants, Blockbuster, Viacom, Paramount Pictures Corporation and Mr. Sumner M. Redstone have agreed to allocate any judgment against any of them in those cases with Blockbuster allocated 33.33% on the one hand, and Viacom, Paramount Pictures and Mr. Redstone allocated 66.67% on the other hand, and not to settle these cases without the reasonable consent of the other.



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### **Director and Officer Insurance Agreement**

Viacom and Blockbuster have entered into an agreement pursuant to which they have allocated between themselves certain rights and responsibilities under the directors' and officers' liability insurance program described below in the section entitled "Relationships Between Viacom and Blockbuster - Other Arrangements with Viacom and its Affiliates - Director and Officer Liability Insurance Program."

### **Director and Officer Indemnification and Guarantee**

Blockbuster has agreed, to the fullest extent permitted by applicable law, promptly to indemnify each person who is or was a member of Blockbuster's board of directors as of May 20, 2004, including the directors and executive officers of Viacom who serve as Blockbuster board members, each person who is or was an officer of Blockbuster as of May 20, 2004, and any person who becomes a member of Blockbuster's board of directors or who becomes an officer at any time prior to the date Viacom distributes control of Blockbuster or otherwise disposes of, in one or more transactions, at least 80% of the aggregate number of shares of Blockbuster class A and class B common stock that it owns immediately prior to the first such disposition (each of the foregoing are referred to in this Prospectus-Offer to Exchange as an "indemnified party") and in each case, who was, is or may be a party to any action based in whole or in part on the fact that such person is or was a member of Blockbuster's board of directors or the Blockbuster special committee or is or was an officer of Blockbuster, as applicable, including certain out-of-pocket expenses reasonably incurred by such Blockbuster officers and directors in enforcing these indemnification rights. Blockbuster has also agreed, to the fullest extent permitted by applicable law, promptly to advance any and all expenses incurred by any indemnified party in connection with any such action provided that such indemnified party undertakes to repay any advance if it is ultimately determined in a final disposition that such indemnified party was not entitled to be indemnified by Blockbuster.

Blockbuster has agreed not to amend the indemnification provisions contained in Blockbuster's certificate of incorporation and bylaws in a manner adverse to the rights to indemnification currently enjoyed by the members of Blockbuster's board of directors or the officers of Blockbuster or inconsistent with the foregoing provisions, except to the extent required by applicable law.

Viacom has agreed to guarantee the indemnification obligations above of Blockbuster to each of the indemnified parties but only with respect to acts and omissions of Blockbuster and the indemnified parties, in their capacity as members of Blockbuster's board of directors or the Blockbuster special committee or as Blockbuster officers, as applicable, committed at the time of or before the date Viacom distributes control of Blockbuster or otherwise disposes of, in one or more transactions, at least 80% of the aggregate number of shares of Blockbuster class A and class B common stock that it owns immediately prior to the first such disposition. Any guarantee provided by Viacom to any such indemnified party will be available only to the extent Blockbuster does not promptly perform its indemnification obligations described above, payment pursuant to any directors' and officers' liability insurance policy is not promptly made available in due course in accordance with its terms after so requested by or on behalf of such indemnified party and Viacom has received an undertaking by such indemnified party, as delivered to Blockbuster, to repay any advances. Viacom's guarantee will not be available to the extent that any claim against Blockbuster or an applicable insurer has been intentionally waived or reduced by such indemnified party or become uncollectible because of the bad faith of such indemnified party or such indemnified party has failed to pursue such a claim. In the event that Viacom makes a guaranty payment to any indemnified party, Viacom will be subrogated to the extent of that payment to all of such indemnified party's rights of recovery thereof. Each indemnified party agrees to reimburse Viacom for any guarantee payments made to the extent he or she subsequently receives indemnification payments from Blockbuster or insurance proceeds from any applicable insurance policy.

### **Other Arrangements with Viacom and its Affiliates**

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*Paramount Pictures.* Blockbuster purchases certain movies for rental and sale directly from Paramount Pictures Corporation, a Viacom subsidiary. Blockbuster's total purchases from Paramount Pictures were

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\$103.8 million and \$23.5 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively. In addition, Paramount Pictures allows Blockbuster to direct a portion of Paramount Pictures' home video advertising expenditures. Blockbuster received \$2.2 million from Paramount Pictures in 2003 and \$0.1 million in the first quarter of 2004 related to this arrangement.

*Advertising with Viacom Affiliates.* Blockbuster uses a third-party agency to allocate its media placement and spending, based on specifications determined by Blockbuster in accordance with independent market studies. The third-party agency conducts a competitive negotiation process with media outlets, including Viacom affiliates, which are generally offered an opportunity of first refusal. During the year ended December 31, 2003, about \$17.6 million of Blockbuster's aggregate advertising expenditures were spent with Viacom affiliates, which represented 10% of Blockbuster's total advertising expenses during 2003. For the three month period ended March 31, 2004, \$0.2 million or approximately 1% of Blockbuster's advertising expenditures were spent with Viacom affiliates.

*Showtime Networks.* Blockbuster also has an agreement with Showtime Networks, Inc., a subsidiary of Viacom, which is referred to in this Prospectus-Offer to Exchange as Showtime, whereby Blockbuster agreed to license from Showtime the non-exclusive domestic home video rights to up to 98 Showtime original motion pictures and other programs over the period from June 10, 2003 through December 31, 2006. Blockbuster's total purchases from Showtime were \$2.3 million and \$0.8 million for the year ended December 31, 2003 and the quarter ended March 31, 2004, respectively. In addition, during 2003, Blockbuster received \$385,000 under a distribution agreement with Showtime, pursuant to which Blockbuster had the exclusive home video rights for a specified period of time in certain Showtime original motion pictures. DEJ Productions Inc., a subsidiary of Blockbuster, licenses to Showtime under separate agreements certain motion pictures for exhibition on Showtime's pay television services and recognized \$250,000 in revenues related to these agreements, during the year ended December 31, 2003.

*Director and Officer Liability Insurance Program.* Viacom has obtained, with Blockbuster's participation, a directors' and officers' liability insurance program with respect to certain Blockbuster related liabilities for the benefit of Viacom, Blockbuster and their respective directors and officers on terms of coverage comparable in material respects to such insurance provided under Viacom's existing directors' and officers' liability insurance program, except that claims relating to acts occurring on or prior to either Viacom's disposition of shares that, in the aggregate, represent a distribution of control of Blockbuster or Viacom's disposition, in one or more transactions, of at least 80% of its aggregate number of shares of Blockbuster may be reported for up to six years from the date of such disposition.

*Insurance Premiums.* Viacom paid insurance premiums on behalf of Blockbuster for a limited number of Blockbuster's property, life and directors' and officers' insurance policies. Blockbuster's reimbursements to Viacom for insurance expenses related to property and life insurance policies were \$2.6 million and \$4.2 million for the years ended December 31, 2001 and 2002, respectively. Blockbuster reimbursed Viacom for insurance expenses related to property, life and directors' and officers' expenses of \$5.4 million and \$1.4 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively. Subsequent to the split-off Blockbuster expects to obtain its own insurance policies and expects to be fully responsible for the payment of the related premiums.

*Interest Rate Swaps.* In March 2001, Viacom entered into two interest rate swaps with Blockbuster so that Blockbuster could obtain a fixed interest rate with respect to \$400 million of its outstanding floating rate debt under its credit facility. The swaps fixed \$200 million of Blockbuster's outstanding debt at an interest rate of 5.01% for two years and the other \$200 million at an interest rate of 5.12% for two and one-half years. The first and second interest rate swaps matured in the first and third quarters of 2003, respectively. Blockbuster's effective interest rates also include a LIBOR spread payable under its credit facility. Including the effect of the LIBOR spread, the effective interest rates of the swaps were approximately 6.26% and 6.37%, respectively, during 2003. There are currently no such arrangements of this type between Blockbuster and Viacom and none are expected to be entered into following the split-off.

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*Midway Games.* As of July 21, 2004, Mr. Sumner M. Redstone and National Amusements beneficially owned an aggregate of approximately 82.69% of the common stock of Midway Games Inc., which is referred to in this Prospectus-Offer to Exchange as Midway. Blockbuster purchased approximately \$4.7 million and \$1.1 million of home video games from Midway during the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively. Blockbuster believes that the terms of these purchases were no less favorable to Blockbuster than would have been obtainable from parties in which there was no such ownership interest.

*Other.* Viacom and its affiliates are party to various other agreements with Blockbuster, which Viacom and Blockbuster believe are not material to it or Blockbuster. Viacom and Blockbuster believe that the terms of these agreements approximate those that would be available from third parties.



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**U.S. FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the material U.S. federal income tax consequences relating to this exchange offer and if applicable, the spin-off. The summary is based on the Internal Revenue Code, the Treasury regulations promulgated thereunder, and interpretations of the Internal Revenue Code and Treasury regulations by the courts and the Internal Revenue Service, all as they exist as of the date of this Prospectus-Offer to Exchange. This summary does not discuss all tax considerations that may be relevant to Viacom stockholders in light of their particular circumstances, including the subsequent resale by any Viacom stockholders of shares of Blockbuster common stock received in this exchange offer or any subsequent spin-off, nor does it address the consequences to Viacom stockholders subject to special treatment under the U.S. federal income tax laws, such as tax-exempt entities, non-resident alien individuals, foreign entities, foreign trusts and estates and beneficiaries thereof, persons who acquire such shares of Viacom common stock pursuant to the exercise of employee stock options or otherwise as compensation, insurance companies, and dealers in securities. In addition, this summary does not address the U.S. federal income tax consequences to Viacom stockholders who do not hold their Viacom common stock as a capital asset. This summary does not address any state, local or foreign tax consequences. Viacom stockholders are urged to consult their tax advisors as to the particular tax consequences to them of this exchange offer and any subsequent spin-off.

**Federal Income Tax Consequences**

Viacom will receive a tax opinion from Cravath, Swaine & Moore LLP to the effect that, for U.S. federal income tax purposes, this exchange offer and any subsequent spin-off will qualify under Section 355 of the Internal Revenue Code as a distribution that is tax-free to Viacom and its stockholders except with respect to any cash received in lieu of fractional shares of Blockbuster class A or class B common stock. Viacom will not be able to rely on this opinion if any factual representations made to counsel are incorrect or untrue or any covenants or undertakings are not complied with. Neither Viacom nor Blockbuster is aware of any facts or circumstances that would cause any such representations to be incorrect or untrue or to prevent compliance with any such covenant or undertaking.

Nevertheless, if Viacom completes this exchange offer and any subsequent spin-off and, notwithstanding the tax opinion, this exchange offer and any subsequent spin-off are held to be taxable for U.S. federal income tax purposes, both Viacom and its stockholders that receive Blockbuster common stock could be subject to a material amount of taxes as a result of this exchange offer and any subsequent spin-off. Blockbuster will be liable to Viacom for any such corporate level taxes incurred by Viacom to the extent such taxes are attributable to specified actions or failures to act by Blockbuster, or to specified transactions involving Blockbuster following this exchange offer and any subsequent spin-off.

The tax opinion will state that for U.S. federal income tax purposes:

no gain or loss will be recognized by, and no amount will be included in the income of, Viacom stockholders upon their receipt of shares of Blockbuster common stock in this exchange offer and, if applicable, the spin-off except with respect to any cash received in lieu of a fractional share of Blockbuster class A or class B common stock;

the aggregate basis of Blockbuster common stock and Viacom common stock in the hands of the Viacom stockholders, immediately following this exchange offer and, if applicable, the spin-off, will be the same as the basis of Viacom common stock held by Viacom stockholders immediately before this exchange offer (reduced by the portion of such basis allocated to fractional shares), allocated in proportion to the relative fair market values of each at the time of this exchange offer; and

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the holding period of the shares of Blockbuster common stock received by Viacom stockholders in this exchange offer and, if applicable, the spin-off will include the holding period of the shares of Viacom common stock with respect to which the shares of Blockbuster common stock were received.

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The tax opinion will not specifically address tax basis issues with respect to holders of shares of Viacom common stock who have blocks of such common stock with different per share tax bases. Such holders are urged to consult their tax advisors regarding the possible tax basis consequences to them of this exchange offer and any subsequent spin-off.

Applicable U.S. Treasury regulations require each of the Viacom stockholders that receives shares of Blockbuster common stock in this exchange offer and, if applicable, the spin-off to attach to the stockholder's U.S. federal income tax return for the year in which such stock is received a detailed statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Internal Revenue Code to this exchange offer and, if applicable, the spin-off. Within a reasonable time after this exchange offer and, if applicable, the spin-off, Viacom will provide its stockholders who participate in this exchange offer and its stockholders who receive shares of Blockbuster class A or class B common stock in any subsequent spin-off with the information necessary to comply with such requirement, and will provide information regarding the allocation of tax basis described above.

Viacom stockholders are urged to consult their tax advisors as to the particular tax consequences of this exchange offer and any subsequent spin-off, including the application of state, local and foreign tax laws and any changes in such laws, including U.S. federal income tax laws, that occur after the date of this Prospectus-Offer to Exchange.

**Tax Consequences to Viacom and Blockbuster**

Based upon the tax opinion from Cravath, Swaine & Moore LLP, as a result of this exchange offer and, if applicable, the spin-off, no material amount of gain and loss will be recognized by either Viacom or Blockbuster for U.S. federal income tax purposes.

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**INTERESTS OF CERTAIN PERSONS**

You should be aware that, as described below, members of the respective managements and boards of directors of Viacom and Blockbuster may have interests in this exchange offer that are different from, or in addition to, your interests, and that may create potential conflicts of interest. Two members of Viacom's board of directors (one of whom is also a Viacom executive officer) and two additional Viacom executive officers, also serve as members of Blockbuster's eight member board of directors that approved certain of the transactions contemplated in connection with this exchange offer based upon the recommendation of the Blockbuster special committee. Viacom's board of directors, Blockbuster's board of directors and the Blockbuster special committee were aware of these interests and considered them, among other matters, in approving this exchange offer and the transactions contemplated in connection with this exchange offer.

**Blockbuster**

*Indemnification Arrangements.* See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Director and Officer Indemnification and Guarantee" on page 102 for a description of Blockbuster's indemnification obligations with respect to its directors and officers and Viacom's agreement to guarantee these obligations.

*Insurance Arrangements.* See the sections entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Director and Officer Insurance Agreement" and "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Other Arrangements with Viacom and its Affiliates Director and Officer Liability Insurance Program" on pages 102 and 103, respectively, for a description of Viacom's and Blockbuster's arrangements with respect to director and officer liability insurance.

*Employment Arrangements.* Mr. John F. Antioco has entered into a new employment agreement with Blockbuster that will generally become effective when Viacom ceases to own more than 50% of the voting power of Blockbuster. This new employment agreement is referred to in this Prospectus-Offer to Exchange as the employment agreement. The employment agreement provides that Mr. Antioco will be employed as Chairman and Chief Executive Officer of Blockbuster and as a member of Blockbuster's board of directors for five years after the effective date of the employment agreement, at an annual salary of \$1,250,000. The term of the employment agreement provides for automatic one-year renewals beginning on the fourth anniversary of the effective date, unless terminated by either party. The employment agreement also provides for deferred compensation payable at the annual rate of \$1,000,000, which amount will be increased by \$150,000 on each January 1st, beginning on January 1, 2005. The deferred compensation will be payable the year after Mr. Antioco ceases to be an executive officer of Blockbuster. Mr. Antioco is eligible to receive an annual bonus pursuant to the Blockbuster Inc. Senior Executive Short-Term Incentive Plan and his target bonus is set at 150% of his base salary and deferred compensation. Mr. Antioco's bonus is payable upon satisfaction of Blockbuster's performance objectives determined each year in accordance with the Blockbuster Inc. Senior Executive Short-Term Incentive Plan.

In accordance with the employment agreement, upon the distribution of control (as defined in Section 368(c) of the Internal Revenue Code of 1986, as amended) of Blockbuster to holders of Viacom common stock, Mr. Antioco will receive (i) options to purchase shares of Blockbuster class A common stock with an exercise price equal to the fair market value on the date of grant, vesting ratably on the first, second and third anniversaries of the distribution of control of Blockbuster; and (ii) restricted share units that vest 50% on the second anniversary of the distribution of control of Blockbuster and 50% on the third anniversary of the distribution of control of Blockbuster and are valued and payable in cash immediately after the termination of Mr. Antioco's employment with Blockbuster or such later date as may be determined under the terms of the employment agreement. Each restricted share unit will be equal in value to the average value of a share of Blockbuster class A common stock and Blockbuster class B common stock on the date of termination. The Blockbuster Senior Executive Compensation Committee will determine the number of stock options and the number of restricted share units to be awarded based on a specified formula. The number of stock options



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awarded will be in a range of between 4.2 million and 5.0 million and the number of restricted share units awarded will be in a range of between 1.0 million and 2.57 million. One-third of the options will be awarded on the fifth trading day after the distribution of control of Blockbuster, another one-third will be awarded on the 30th day after the distribution of control of Blockbuster and the final one-third will be awarded on the 60th day after the distribution of control of Blockbuster.

In the event of the termination of Mr. Antioco's employment without cause (as defined in the employment agreement) or his voluntary termination for good reason (as defined in the employment agreement) during the employment term, Mr. Antioco will be entitled to receive (i) a lump sum payment equal to the sum of his salary, deferred compensation (at the level in effect on the date of termination) and target bonus, multiplied by two or, if greater, the number of full and partial years remaining in the employment term, and (ii) continued benefits for the greater of 24 months or the balance of the term. In addition, in such event, Mr. Antioco's stock options, including options that have not vested by the date of termination, will be exercisable for six months after the date of termination for stock options granted before the effective date of the employment agreement and two years after the date of termination for stock options granted on or after the effective date of the employment agreement, but not beyond the expiration date of such stock options. All other equity or equity-related awards, including the restricted share units described above, will vest and become payable on the date of such termination of Mr. Antioco's employment.

Mr. Antioco will be subject to non-compete provisions in favor of Blockbuster for one year after the termination of his employment without cause or his voluntary termination for good reason (as such terms are defined in the employment agreement) and 18 months after the termination of his employment for cause.

The employment agreement provides that, in the event of the termination of his employment in connection with a change in control (as defined in the employment agreement), Mr. Antioco would be entitled to receive (i) a lump sum payment equal to the sum of his salary, deferred compensation (at the level in effect on the date of termination) and target bonus, multiplied by three or, if greater, the number of full and partial years remaining in the employment term, and (ii) continued benefits for the greater of 36 months or the balance of the term. In addition, in such event, Mr. Antioco would be entitled to the acceleration of vesting for his stock options and restricted share units described above in connection with a termination of his employment without cause or for good reason. In addition, in such event, Mr. Antioco's stock options, including options that have not vested at the date of the change of control, will be exercisable for six months after the date of Mr. Antioco's termination of employment for stock options granted before the effective date of the employment agreement and three years after the date of Mr. Antioco's termination of employment for stock options granted on or after the effective date of the employment agreement, but not beyond the expiration date of such stock options. All other equity or equity-related awards, including the restricted share units described above, will vest and become payable on the date of such termination of Mr. Antioco's employment.

The employment agreement also provides that certain payments will be made in the event of Mr. Antioco's death or permanent disability.

In addition, Viacom has agreed to pay Mr. Antioco stay bonus compensation in the amount of \$7.5 million if the distribution of control of Blockbuster to holders of Viacom common stock has not occurred by June 30, 2005.

*Stock Option Arrangements.* Pursuant to Blockbuster compensatory plans, directors and executive officers of Blockbuster have been granted 939,624 options to acquire Viacom common stock that are exercisable and 471,250 options to acquire Viacom common stock that are not exercisable, in each case, as of May 10, 2004. On May 17, 2004, the Viacom Compensation Committee approved an extension of the period for Blockbuster executives to exercise stock options to purchase Viacom common stock granted since August 1998 (the August 20, 1998 grant had been awarded to these executives in connection with the delay in Blockbuster becoming a public company), for four years from the date the committee acted, so long as the executives remain actively employed by Blockbuster, subject to employment agreements that contain non-competition provisions in favor of Blockbuster. In addition, at that time, because most of the unvested options for Viacom common stock held by the Blockbuster executives would automatically vest and become exercisable upon the split-off, the Viacom Compensation Committee

approved the acceleration of the vesting of the rest of the options. The extension of

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time and the acceleration of vesting will take effect when Blockbuster ceases to be a 50% owned subsidiary of Viacom. All other terms of the Viacom options will remain in place. Viacom has agreed with Blockbuster that it will deliver executed letters to each optionholder confirming these arrangements.

Pursuant to Blockbuster compensatory plans, directors and executive officers of Blockbuster have been granted 3,084,477 options to acquire Blockbuster class A common stock that are currently exercisable and 3,186,546 options to acquire Blockbuster common stock that are not yet exercisable, in each case, as of May 10, 2004. In connection with Blockbuster's special distribution, Blockbuster will modify these options to purchase Blockbuster class A common stock as permitted by the plans such that the ratio of the exercise price to the fair market value of Blockbuster class A common stock and the aggregate economic value of these options, immediately before and after the date the special distribution is made, will remain substantially the same. All other terms of these Blockbuster stock options will remain unchanged. See the section entitled "Blockbuster Stock Option Matters - Stock Option Adjustment" on page 69.

The Senior Executive Compensation Committee of Blockbuster's board of directors has approved in concept a plan to offer to its employees holding Blockbuster stock options the opportunity, at each optionholder's election, to exchange all, but not less than all, of their options for restricted stock of Blockbuster. However, optionholders with minimal holdings will likely be offered cash in lieu of restricted stock. A majority of the currently outstanding Blockbuster stock options have exercise prices in excess of Blockbuster's current stock price. The restricted stock exchange offer is intended to retain and motivate key employees as Blockbuster works toward implementing its new initiatives. The restricted stock exchange offer would result in a significant non-cash compensation charge to Blockbuster in future periods. Blockbuster anticipates that the restricted stock exchange offer would take place after the split-off, but not necessarily after any spin-off. The specific timing and final terms of the restricted stock exchange offer will be determined by Blockbuster's Senior Executive Compensation Committee. See the section entitled "Blockbuster Stock Option Matters - Restricted Stock Exchange Offer" beginning on page 69.

*Compensation of Members of the Blockbuster Special Committee.* Ms. Jackie M. Clegg, Ms. Linda Griego and Mr. John L. Muething, the three members of the Blockbuster special committee, each are being compensated for serving as a member of the Blockbuster special committee. The amounts of compensation are \$80,000 for Ms. Clegg, as chairperson of the Blockbuster special committee, and \$70,000 for each of Ms. Griego and Mr. Muething as members thereof. In addition, each member of the special committee receives \$2,000 for each meeting attended in person and \$1,000 for each meeting attended by telephone. These compensation amounts were authorized by Blockbuster's board of directors in order to compensate the members of the Blockbuster special committee for the significant additional time commitment that is required of them in connection with fulfilling their duties and responsibilities as members of the Blockbuster special committee and is paid without regard to whether this exchange offer or transactions contemplated in connection herewith will be completed.

*Relationship of Directors and Executive Officers with Viacom.* Mr. Sumner M. Redstone, a director of Blockbuster, is the Chairman of the Board of Directors and Chief Executive Officer of Viacom. Mr. Redstone is also the Chief Executive Officer and Chairman of the Board of Directors of National Amusements, which beneficially owns shares of Viacom common stock representing approximately 71% of the voting power of all outstanding shares of Viacom stock. Mr. Richard J. Bressler, a director of Blockbuster, is the Senior Executive Vice President and Chief Financial Officer of Viacom. Mr. Phillippe P. Dauman is a director of Blockbuster as well as a director of Viacom. Mr. Michael D. Fricklas, a director of Blockbuster, is the Executive Vice President, General Counsel and Secretary of Viacom.

Effective as of the time that Viacom owns shares representing not more than 50% of the total voting power of Blockbuster, Messrs. Redstone, Bressler, Dauman and Fricklas will resign from Blockbuster's board of directors. In accordance with Blockbuster's bylaws, these vacancies will be filled, or the authorized number of directors of Blockbuster may be reduced, by a vote of the majority of the Blockbuster directors remaining in office. As of the date of this Prospectus-Offer to Exchange, Blockbuster's board of directors has not identified



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the individuals who will fill these vacancies or what changes, if any, it will make to the size of the board of directors.

*Relationship of Blockbuster Director with J.P. Morgan Chase & Co.* Mr. Richard J. Bressler, a member of Blockbuster's board of directors and Senior Executive Vice President and Chief Financial Officer of Viacom, is a member of the National Advisory Board of J.P. Morgan Chase & Co. J.P. Morgan Securities Inc., a subsidiary of J.P. Morgan Chase & Co., is acting as Blockbuster's co-financial advisor in connection with this exchange offer. J.P. Morgan Securities Inc. will receive a customary fee for its services as co-financial advisor to Blockbuster, in addition to being indemnified by Blockbuster for certain liabilities in connection with this exchange offer.

**Viacom**

*Relationship of Viacom Director with Bear Stearns.* Mr. Alan C. Greenberg, a member of Viacom's board of directors, is the Chairman of the Executive Committee and a member of the board of directors of Bear Stearns. Bear Stearns is acting as Viacom's co-dealer manager and co-financial advisor in connection with this exchange offer. Bear Stearns will receive a customary fee for its services as co-dealer manager and co-financial advisor to Viacom, in addition to being indemnified by Viacom for certain liabilities and being reimbursed by Viacom for its reasonable out-of-pocket expenses, including attorneys' fees, in connection with this exchange offer.

*Insurance Arrangements.* See the sections entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions," "Relationships Between Viacom and Blockbuster," "Director and Officer Insurance Agreement," and "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Other Arrangements with Viacom and its Affiliates," "Director and Officer Liability Insurance Program" on pages 102 and 103, respectively, for a description of Viacom's and Blockbuster's arrangements with respect to director and officer liability insurance.

*Registration Rights.* Pursuant to the registration rights agreement, Blockbuster has filed a registration statement on Form S-3 to facilitate the public resale of any Blockbuster class A and class B common stock received by NAIRI, Mr. Sumner M. Redstone or any of their respective affiliates in any spin-off.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF VIACOM****Security Ownership of Certain Beneficial Owners and Management of Viacom**

The table below sets forth, as of March 31, 2004, except as otherwise noted, certain information concerning the beneficial ownership of shares of Viacom class A and class B common stock and Blockbuster class A and class B common stock by: (i) each director of Viacom; (ii) each executive officer of Viacom; (iii) the current directors and executive officers of Viacom as a group; (iv) each person controlling Viacom and the executive officers and directors of such controlling person; (v) each associate and majority-owned subsidiary of Viacom, each person controlling Viacom, and the executive officers and directors of Viacom and such controlling person; and (vi) persons who are known to be holders of 5% or more of shares of Viacom class A common stock. Each person has sole voting and investment power over the shares reported except as noted.

As of March 31, 2004, there were 132,134,587 shares of Viacom class A common stock outstanding, 1,604,428,716 shares of Viacom class B common stock outstanding, 37,058,607 shares of Blockbuster class A common stock outstanding and 144,000,000 shares of Blockbuster class B common stock outstanding.

**Beneficial Ownership of Equity Securities**

<u>Name</u>	<u>Title of Equity Security</u>	<u>Number</u>		<u>Percent of Class</u>
		<u>of Equity Shares</u>	<u>Option Shares(1)</u>	
George S. Abrams	Viacom class A common stock			
	Viacom class B common stock	18,295(2)		*
	Blockbuster class A common stock	31,041(2)	38,000	*
	Blockbuster class B common stock	2,000(3)		*
David R. Andelman	Viacom class A common stock			
	Viacom class B common stock	2,466(2)		*
	Blockbuster class A common stock	2,475(2)	19,000	*
	Blockbuster class B common stock			
Richard J. Bressler	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	155(4)	1,050,000	*
	Blockbuster class B common stock			
Joseph A. Califano, Jr.	Viacom class A common stock	720(2)		*
		6,629(2)(5)	10,000	*

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Viacom class B common stock

Blockbuster class A common stock

Blockbuster class B common stock

William S. Cohen	Viacom class A common stock			
	Viacom class B common stock			*
	Blockbuster class A common stock	420(2)	10,000	*
	Blockbuster class B common stock			
Philippe P. Dauman	Viacom class A common stock			
	Viacom class B common stock	2,121(4)(5)		*
	Blockbuster class A common stock	17,563(4)(5)	22,000	*
	Blockbuster class B common stock	3,704		*
Carl D. Folta	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	3,714(4)	136,666	*
	Blockbuster class B common stock	200		*

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<b>Beneficial Ownership of Equity Securities</b>				
<u>Name</u>	<u>Title of Equity Security</u>	<u>Number of Equity Shares</u>	<u>Option Shares(1)</u>	<u>Percent of Class</u>
Robert G. Freedline	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	1,408(4)	176,113	*
	Blockbuster class B common stock			
Thomas E. Freston(15)	Viacom class A common stock	74(4)		*
	Viacom class B common stock	762(4)(5)	2,597,000	*
	Blockbuster class A common stock			
	Blockbuster class B common stock			
Michael D. Fricklas	Viacom class A common stock			
	Viacom class B common stock	46(4)		*
	Blockbuster class A common stock	1,367(4)	462,500	*
	Blockbuster class B common stock			
Susan C. Gordon	Viacom class A common stock			
	Viacom class B common stock	746(4)		*
	Blockbuster class A common stock	1,770(4)	146,083	*
	Blockbuster class B common stock			
Alan C. Greenberg	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	25,000	10,000	*
	Blockbuster class B common stock			
Mel Karmazin(15)	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	4,045,256(4)(5)(8)	7,708,904	*
	Blockbuster class B common stock			
Jan Leschly	Viacom class A common stock			

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	Viacom class B common stock	3,172(2)		*
	Blockbuster class A common stock	54,873(2)	26,412	*
	Blockbuster class B common stock			
David T. McLaughlin	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	39,569(6)(7)	52,233	*
	Blockbuster class B common stock			
Jerome Magner	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	10,000		*
	Blockbuster class B common stock			
Carol A. Melton	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	320(4)	242,083	*
	Blockbuster class B common stock			
Leslie Moonves(15)	Viacom class A common stock			
	Viacom class B common stock	41,574(4)(5)	3,720,967	*
	Blockbuster class A common stock			
	Blockbuster class B common stock			

**Table of Contents****Beneficial Ownership of Equity Securities**

<u>Name</u>	<u>Title of Equity Security</u>	<u>Number of Equity Shares</u>	<u>Option Shares(1)</u>	<u>Percent of Class</u>
Brent Redstone	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	1,000(8)(9)		*
	Blockbuster class B common stock			
Shari Redstone	Viacom class A common stock			
	Viacom class B common stock	(9)		
	Blockbuster class A common stock	3,000(8)(9)		*
	Blockbuster class B common stock	(9)		
Sumner M. Redstone	Viacom class A common stock			
	Viacom class B common stock	93,658,908(10)		70.9%
	Blockbuster class A common stock	104,345,171(10)	10,562,500	7.1%
	Blockbuster class B common stock	147,576,145(11)		81.5%
William A. Roskin	Viacom class A common stock			
	Viacom class B common stock	567(4)		*
	Blockbuster class A common stock	2,310(4)	483,750	*
	Blockbuster class B common stock			*
Frederic V. Salerno	Viacom class A common stock			
	Viacom class B common stock	11,001(2)		*
	Blockbuster class A common stock	21,002(2)	15,000	*
	Blockbuster class B common stock			
William Schwartz	Viacom class A common stock			
	Viacom class B common stock	18,477(2)		*
	Blockbuster class A common stock	18,764(2)	27,000	*
	Blockbuster class B common stock			
Martin M. Shea	Viacom class A common stock			

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	Viacom class B common stock			
	Blockbuster class A common stock	1,047(4)	127,500	*
	Blockbuster class B common stock			
Richard J. Sherman	Viacom class A common stock			
	Viacom class B common stock			
	Blockbuster class A common stock	200		*
	Blockbuster class B common stock			
Patty Stonesifer	Viacom class A common stock			
	Viacom class B common stock	3,619(2)		*
	Blockbuster class A common stock	8,995(2)	22,905	*
	Blockbuster class B common stock			
Robert D. Walter	Viacom class A common stock			
	Viacom class B common stock	3,098(2)		*
	Blockbuster class A common stock	82,062(2)(6)(7)	33,522	*
	Blockbuster class B common stock			
NAIRI Inc.(13)	Viacom class A common stock	93,658,828(10)		70.9%
		104,334,828(10)		6.5%
National Amusements, Inc.(13)	Viacom class B common stock	147,576,145(11)		81.5%
	Blockbuster class A common stock	144,000,000(11)		100.0%
	Blockbuster class B common stock			
Mario J. Gabelli(14) Gabelli Asset Management Inc.(14)	Viacom class A common stock	8,342,535(12)		6.3%

**Table of Contents****Beneficial Ownership of Equity Securities**

Name	Title of Equity Security	Number		Percent of Class
		Shares	Option Shares(1)	
Current directors and executive officers of Viacom as a group, other than Mr. Sumner M. Redstone (23 persons)(15)	Viacom class A common stock			
	Viacom class B common stock	64,822(2)(4)(5)		*
	Blockbuster class A common stock	365,820(2-8)	9,428,734	*
	Blockbuster class B common stock	5,904		*

\* Represents less than 1% of the outstanding common stock of the class.

**Notes:**

- (1) Reflects shares subject to options to purchase such shares which were unexercised but exercisable within a period of 60 days. These shares are excluded from the column headed Number of Equity Shares.
- (2) Includes the following Viacom class A common stock units and class B common stock units credited to the indicated directors as of March 31, 2004 pursuant to Viacom's Deferred Compensation Plan for Non-Employee Directors: Messrs. Abrams, 18,295 class A and 18,641 class B; Andelman, 2,466 class A and 2,475 class B; Califano, 720 class A and 719 class B; Cohen, 420 class A and 420 class B; Leschly, 3,172 class A and 3,183 class B; Salerno, 11,001 class A and 11,002 class B; Schwartz, 18,477 class A and 18,764 class B; Walter, 3,098 class A and 3,108 class B; and Ms. Stonesifer, 3,619 class A and 3,630 class B. Pursuant to this plan, these common stock units are payable in cash following termination of service as a director.
- (3) Includes shares held through a 401(k) plan.
- (4) Includes shares held through the Viacom 401(k) Plan.
- (5) The following shares, which are included in the security ownership table for the indicated directors, are owned by family members: Messrs. Califano, 1,885 shares of Viacom class B common stock, as to which he disclaims beneficial ownership; Dauman, 2,000 shares of Viacom class A common stock and 4,000 shares of Viacom class B common stock; Freston, 65 shares of Viacom class B common stock, as to which he disclaims beneficial ownership; Karmazin, 271,547 shares of Viacom class B common stock, as to which he disclaims beneficial ownership; and Moonves, 558 shares of Viacom class B common stock, as to which he disclaims beneficial ownership.
- (6) Includes the following Viacom class B common stock equivalents credited to the indicated directors pursuant to the CBS Deferred Compensation and Stock Plan for Directors: Messrs. McLaughlin, 3,492; and Walter, 112. Pursuant to this plan, these common stock equivalents are payable in shares of Viacom class B common stock following termination of service as a director.
- (7) Includes the following Viacom class B common stock units credited to the indicated directors pursuant to the CBS Deferred Compensation and Stock Plan for Directors: Messrs. McLaughlin, 23,269; and Walter, 3,278. Pursuant to this plan, these common stock units are payable in shares of Viacom class B common stock, or cash, for all or part thereof following termination of service as a director.
- (8) Includes (a) for Mr. Karmazin, (i) 1,776,723 shares of Viacom class B common stock as to which Mr. Karmazin has sole voting power but no investment power; (ii) 105,743 shares of Viacom class B common stock held by the Karmazin Foundation as to which Mr. Karmazin has sole voting and shared investment power; and (iii) 427,525 shares of Viacom class B common stock held by the Karmazin Charitable Lead Annuity Trusts I and II as to which Mr. Karmazin has sole voting and investment power; however, Mr. Karmazin disclaims beneficial ownership of the shares reported in (ii) and (iii), except, in the case of the trusts, to the extent of his pecuniary interest; (b) for Brent Redstone, 1,000 shares of Viacom class B common stock held in trust for the benefit of his daughter of which he is a co-trustee; and (c) for Shari Redstone, 3,000 shares of Viacom class B common stock held in trusts for the benefit of her children for which she is a co-trustee.
- (9) Shari Redstone is an executive officer, director and stockholder of National Amusements and Brent Redstone is a director and stockholder of National Amusements. Each has a significant indirect beneficial





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- interest in the Viacom shares beneficially owned by National Amusements and in the Blockbuster shares owned by Viacom.
- (10) Except for 80 shares of Viacom class A common stock and 10,080 shares of Viacom class B common stock owned directly by Mr. Redstone and 263 shares of Viacom class B common stock held directly by Mr. Redstone through the Viacom 401(k) Plan, all shares are owned beneficially by National Amusements. Mr. Redstone is the beneficial owner of the controlling interest in National Amusements and, accordingly, beneficially owns all such shares.
  - (11) Each share of Blockbuster class B common stock is convertible at the option of the holder into one share of Blockbuster class A common stock. The shares of Blockbuster class A common stock beneficially owned by National Amusements and Mr. Redstone consist of (a) 144,000,000 shares which they are deemed to own beneficially as a result of the conversion feature and (b) 3,576,145 shares held by Viacom and its subsidiaries. This amount does not reflect the purchase of 24,207 shares of Blockbuster class A common stock by Viacom and its subsidiaries in April and May 2004 to maintain tax consolidation.
  - (12) This information is based on an amendment to a Schedule 13D filed with the SEC on February 5, 2003 by Mario J. Gabelli and various entities, including investment companies, which he directly or indirectly controls or for which he acts as chief investment officer, reporting as of February 3, 2003 an aggregate beneficial ownership of 8,342,535 shares of Viacom class A common stock, which currently represents approximately 6.3% of the outstanding shares of such class. This Schedule 13D reported that the shares are generally held for investment and that the entities reporting beneficial ownership generally have sole investment and voting power over such shares.
  - (13) The address for NAIRI and National Amusements is 200 Elm Street, Dedham, MA 02026.
  - (14) The address of Mario J. Gabelli and Gabelli Asset Management Inc. is One Corporate Center, Rye, NY 10580-1435.
  - (15) Mr. Karmazin served as President and Chief Operating Officer and a director of Viacom until June 1, 2004 and was a named executive officer of Viacom as of December 31, 2003. Messrs. Freston and Moonves were appointed Co-Presidents and Co-Chief Operating Officers of Viacom effective June 1, 2004, and the beneficial ownership set forth above for each of them is as of such date.

Viacom Investments Inc., a wholly owned subsidiary of CBS Broadcasting Inc., which is a wholly owned subsidiary of Viacom, owns 414,400,000 shares of Viacom class B common stock. These shares were originally issued to CBS Broadcasting Inc. in February 2001 as a result of the acquisition by Viacom of the publicly traded minority equity interest in Infinity Broadcasting Corporation. CBS Broadcasting Inc. contributed all 414.4 million shares to Viacom Investments Inc. in December 2003. These shares are not reflected in the beneficial ownership table above because they are eliminated in consolidation and are not otherwise reflected in ownership percentages of Viacom class A and class B common stock included in this Prospectus-Offer to Exchange.

**Change in Control Transactions**

There are no existing arrangements between any persons, the operation of which could result in a change of control of Viacom at any subsequent date.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF BLOCKBUSTER AND  
TRANSACTIONS WITH MANAGEMENT AND CERTAIN****BENEFICIAL OWNERS****Security Ownership of Certain Beneficial Owners and Management of Blockbuster**

The following table sets forth information with respect to the number of shares of Viacom class A and class B common stock and Blockbuster class A and class B common stock beneficially owned by (i) Blockbuster's Chief Executive Officer and each of Blockbuster's four other most highly compensated executive officers who were serving as such on December 31, 2003 (based on salary and bonus earned during fiscal 2003); (ii) each current director of Blockbuster; and (iii) all directors and current executive officers of Blockbuster as a group. The following table also sets forth information with respect to the number of shares of Blockbuster class A or class B common stock beneficially owned by each person known to Blockbuster to beneficially own more than five percent (5%) of the outstanding shares of its common stock. Except as otherwise noted, (i) the persons named in the table have sole voting and investment power with respect to all shares beneficially owned by them, and (ii) ownership is as of March 31, 2004.

As of March 31, 2004, there were 132,134,587 shares of Viacom class A common stock outstanding, 1,604,428,716 shares of Viacom class B common stock outstanding, 37,058,607 shares of Blockbuster class A common stock outstanding and 144,000,000 shares of Blockbuster class B common stock outstanding.

**Beneficial Ownership of Equity Securities**

<u>Name</u>	<u>Title of Equity Security</u>	<u>Number of Outstanding Shares</u>	<u>Number of Shares Underlying Options or Conversion Rights(1)</u>	<u>Percent of Class</u>
John F. Antioco	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	5,112(2) 34,021(2)	655,974 1,551,330	* 4.1%
Richard J. Bressler	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	155(3)	1,050,000	*
Jackie M. Clegg	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	1,499		*
Philippe P. Dauman	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	2,121(3)(4) 17,563(3)(5) 3,704	22,000	* * *

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Michael D. Fricklas	Viacom class A common stock	46(3)		*
	Viacom class B common stock	1,367(3)	462,500	*
Linda Griego	Blockbuster class A common stock			
	Blockbuster class B common stock	6,887	13,200	*

**Table of Contents****Beneficial Ownership of Equity Securities**

<u>Name</u>	<u>Title of Equity Security</u>	<u>Number of Outstanding Shares</u>	<u>Number of Shares Underlying Options or Conversion Rights(1)</u>	<u>Percent of Class</u>
John L. Muething	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	10,387	14,000	*
Sumner M. Redstone(6)	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	93,658,908(7) 104,345,171(7) 3,576,145(8) 144,000,000(8)	10,562,500 144,000,000(8)	70.9% 7.1% 81.5% 100.0%
Nicholas P. Shepherd	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	1,250	9,000 133,000	* *
Edward B. Stead	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	85(2)	37,500 217,100	* *
Nigel Travis	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	80 748 1,710	103,750 385,815	* * 1.0%
Larry J. Zine	Viacom class A common stock Viacom class B common stock Blockbuster class A common stock Blockbuster class B common stock	2,017(2) 1,078(2)	77,500 409,832	* 1.1%
American Century Investment Management, Inc.(9) American Century Companies, Inc.(9) American Century Mutual Funds, Inc.(9)	Blockbuster class A common stock	6,648,973(10)		17.9%
Goldman Sachs Asset Management, L.P. (11)	Blockbuster class A common stock	3,476,043(12)		9.4%
Husic Capital Management(13) Frank J. Husic & Co.(13) Frank J. Husic(13)	Blockbuster class A common stock	1,857,600(14)		5.0%
LSV Asset Management(15)	Blockbuster class A common stock	3,874,564(16)		10.5%
Mellon Financial Corporation(17) Mellon Trust of New England, National Association(17)	Blockbuster class A common stock	2,567,162(18)		6.9%



**Table of Contents****Beneficial Ownership of Equity Securities**

Name	Title of Equity Security	Number of Outstanding Shares	Number of Shares Underlying Options or Conversion Rights(1)	Percent of Class
Viacom Inc.(19)	Blockbuster class A common stock	3,576,145(8)	144,000,000(8)	81.5%
Viacom International Inc.(19)	Blockbuster class B common stock	144,000,000(8)		100.0%
NAIRI, Inc.(20)				
National Amusements, Inc.(20)				
Current directors and current executive officers of Blockbuster as a group other than Mr. Sumner M. Redstone (14 persons) (21)				
	Viacom class A common stock	2,305(22)		*
	Viacom class B common stock	27,103(23)	2,482,224	*
	Blockbuster class A common stock	62,192(2)	3,084,477	7.8%
	Blockbuster class B common stock			

\* Represents less than 1% of the outstanding common stock of the class.

**Notes:**

- (1) Amounts indicated reflect shares subject to stock options that, on March 31, 2004, were unexercised but were exercisable within a period of 60 days from that date; except that amounts of Blockbuster class A common stock indicated in this column as beneficially owned by Mr. Redstone and Viacom Inc. reflect shares subject to the conversion rights described in footnote (8) below. These shares are excluded from the column headed Number of Outstanding Shares.
- (2) This includes shares held through Blockbuster's 401(k) plan.
- (3) This includes shares held through Viacom's 401(k) plan.
- (4) This includes 2,000 shares that are held by a family member of Mr. Dauman.
- (5) This includes 4,000 shares that are held by a family member of Mr. Dauman.
- (6) The address for Mr. Redstone is c/o Viacom Inc. 1515 Broadway, New York, New York 10036.
- (7) Except for 80 shares of Viacom class A common stock and 10,343 shares of Viacom class B common stock owned directly by Mr. Redstone (including 263 shares through Viacom's 401(k) plan), all shares are beneficially owned through National Amusements. Mr. Redstone is the Chairman and Chief Executive Officer of, and the beneficial owner of the controlling interest in, National Amusements.
- (8) This is based in part on a Schedule 14A filed by Viacom with the SEC on April 15, 2004. Viacom beneficially owns 3,576,145 shares of Blockbuster class A common stock, of which shares 1,621,100 are held directly by Viacom International Inc., a wholly owned subsidiary of Viacom. Approximately 71% of Viacom's voting stock is owned by NAIRI, which is a wholly-owned subsidiary of National Amusements. Beneficial ownership is attributed to Mr. Redstone due to his beneficial ownership and control of National Amusements, as disclosed in footnote (7) above, and NAIRI. Pursuant to Blockbuster's Amended and Restated Certificate of Incorporation, each share of Blockbuster's class B common stock is convertible at the option of the holder thereof into one share of Blockbuster's class A common stock. As a result, Viacom, Viacom International Inc., NAIRI, National Amusements and Mr. Redstone are deemed to beneficially own 144,000,000 shares of Blockbuster's class A common stock through Viacom International Inc.'s ownership of 144,000,000 shares of Blockbuster's class B common stock.
- (9) The address for American Century Investment Management, Inc., American Century Companies, Inc. and American Century Mutual Funds, Inc. is 4500 Main Street, 9<sup>th</sup> Floor, Kansas City, Missouri 64111.
- (10) This is based in part on an amendment to Schedule 13G filed with the SEC on February 20, 2004, which was jointly filed by American Century Investment Management, Inc. (ACIM), American Century Companies, Inc. (ACC) and American Century Mutual Funds, Inc. (ACMF). According to the Schedule 13G, ACC beneficially owns all of the reported shares through its wholly

owned subsidiary ACIM, as a



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- result of ACIM s acting as investment adviser to various persons, such as investment companies and separate institutional investor accounts, including ACMF, which owns 4,740,735 of such shares.
- (11) The address for Goldman Sachs Asset Management, L.P. is 32 Old Slip, New York, New York 10005.
  - (12) This is based in part on a Schedule 13G filed with the SEC on February 11, 2004 by Goldman Sachs Asset Management, L.P. ( GSAM ). According to the Schedule 13G, GSAM beneficially owns all of the shares reported but disclaims beneficial ownership of any securities managed by third parties on GSAM s behalf.
  - (13) The address for Husic Capital Management, Frank J. Husic & Co. and Frank J. Husic is 555 California Street, Suite 2900, San Francisco, California 94104.
  - (14) This is based in part on an amendment to Schedule 13G filed with the SEC on March 16, 2001, which was jointly filed by Husic Capital Management, Frank J. Husic & Co. and Frank J. Husic. According to the Schedule 13G, the shares are indirectly held by Frank J. Husic & Co. as the sole general partner of Husic Capital Management and by Frank J. Husic as the sole stockholder of Frank J. Husic & Co.
  - (15) The address for LSV Asset Management is 1 North Wacker Drive, Suite 4000, Chicago, Illinois 60606.
  - (16) This is based in part on a Schedule 13G filed with the SEC on January 8, 2004 by LSV Asset Management. According to the Schedule 13G, LSV Asset Management has sole voting power with respect to 2,780,964 of such shares and sole investment power with respect to 3,767,064 of such shares.
  - (17) The address for Mellon Financial Corporation and Mellon Trust of New England, National Association is One Mellon Center, Pittsburgh, Pennsylvania 15258.
  - (18) This is based in part on an amendment to Schedule 13G filed with the SEC on February 5, 2004, which was filed by Mellon Bank, N.A. on behalf of its parent holding company, Mellon Financial Corporation ( MFC ) and MFC s subsidiary, Mellon Trust of New England, National Association ( MTNE ). According to the Schedule 13G, (i) all of the shares reported are beneficially owned by MFC and its direct or indirect subsidiaries in their various fiduciary capacities, including MTNE, which beneficially owns 2,115,618 of such shares; (ii) MFC has sole voting power with respect to 1,437,637 of such shares, sole investment power with respect to 2,558,364 of such shares and shared voting and investment power with respect to 3,000 of such shares; and (iii) MTNE has sole voting power with respect to 1,050,518 of such shares and sole investment power with respect to 2,109,820 of such shares.
  - (19) The address for Viacom and Viacom International Inc. is 1515 Broadway, New York, New York 10036.
  - (20) The address for NAIRI and National Amusements is 200 Elm Street, Dedham, Massachusetts 02026.
  - (21) Including Mr. Redstone in the totals for Blockbuster s current directors and current executive officers as a group, the number of outstanding shares and the number of shares underlying options or conversion rights of (i) Viacom class A common stock is 93,661,213 and 0, respectively, or 70.9% of the class; (ii) Viacom class B common stock is 104,372,274 and 13,044,724, respectively, or 7.3% of the class; (iii) Blockbuster class A common stock is 3,638,337 and 147,084,477, respectively, or 81.9% of the class and (iv) Blockbuster class B common stock is 144,000,000 and 0, respectively, or 100% of the class.
  - (22) This includes information disclosed in footnotes (3) and (4) above.
  - (23) This includes information disclosed in footnotes (2), (3) and (5) above.

**Transactions with Management and Certain Beneficial Owners**

As of the date of this Prospectus-Offer to Exchange, members of Blockbuster s executive management have agreed to sign lockup agreements pursuant to which they have agreed not to exercise employee stock options to acquire an aggregate of [ ] shares of Blockbuster class A common stock, as described under Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement Conversion of Blockbuster Class B Common Stock beginning on page 93.

**Change in Control Transactions**

There are no existing arrangements between any persons, the operation of which could result in a change of control of Blockbuster following this exchange offer.

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**DESCRIPTION OF CAPITAL STOCK OF BLOCKBUSTER**

**General**

The following description is only a summary of the material provisions of Blockbuster's certificate of incorporation and bylaws. Subsequent to the recommendation by the Blockbuster special committee, Blockbuster's board of directors has recommended that its stockholders approve certain amendments to its certificate of incorporation and Blockbuster's stockholders approved these amendments at Blockbuster's 2004 annual meeting. The Blockbuster charter amendments will be filed and become effective immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. To the extent any of the provisions described below will be amended by the Blockbuster charter amendments, a description of the material provisions of the proposed revisions is included. See the more detailed provisions of (1) Blockbuster's certificate of incorporation and bylaws, copies of which are filed with the SEC as exhibits to the Registration Statement of which this Prospectus-Offer to Exchange is a part, and (2) applicable law.

Blockbuster's authorized capital stock consists of 1 billion shares of capital stock, of which:

400 million shares are designated as class A common stock, par value \$.01 per share;

500 million shares are designated as class B common stock, par value \$.01 per share; and

100 million shares of preferred stock, par value \$.01 per share, of which no shares of preferred stock are outstanding as of the date hereof.

Of the 400 million authorized shares of Blockbuster class A common stock, as of May 21, 2004, 37,088,131 shares were issued and outstanding, representing 20.5% of the total issued and outstanding shares of Blockbuster common stock. Of the outstanding shares of Blockbuster class A common stock, as of May 21, 2004, Viacom held approximately 3.6 million shares, representing about 9.7% of the total shares of Blockbuster class A common stock issued and outstanding.

Of the 500 million authorized shares of Blockbuster class B common stock, as of May 21, 2004, 144 million shares were issued and outstanding, representing 79.5% of the total issued and outstanding shares of Blockbuster common stock. Viacom currently holds all of the issued and outstanding shares of Blockbuster class B common stock. Following Viacom's conversion of [ ] shares of Blockbuster class B common stock into [ ] shares of Blockbuster class A common stock in connection with this exchange offer, approximately 60% of the equity value of Blockbuster will be represented by shares of Blockbuster class A common stock and approximately 40% of the equity value of Blockbuster will be represented by shares of Blockbuster class B common stock. Each of the Blockbuster class A and class B common stock constitutes a class of common stock under the DGCL.

**Common Stock**

*Voting Rights.* Holders of Blockbuster class A and class B common stock generally have identical rights, except:

holders of Blockbuster class A common stock are entitled to one vote per share; and

holders of Blockbuster class B common stock are currently entitled to five votes per share;

with respect to each matter presented to Blockbuster stockholders on which the holders of Blockbuster common stock are generally entitled to vote. The Blockbuster charter amendments provide that, after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled **Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement** beginning on page 91.

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The holders of Blockbuster class A and class B common stock are not entitled to cumulate their votes in the election of directors. Generally, all matters to be voted on by Blockbuster's stockholders must be approved by a majority, or, in the case of election of directors, by a plurality, of the votes entitled to be cast by all shares of Blockbuster class A and class B common stock present in person or represented by proxy, voting together as a single class, except as required by law. In particular, amendments to Blockbuster's certificate of incorporation must generally be approved by a majority of the combined voting power of shares of both outstanding classes of Blockbuster common stock, voting together as a single class.

However, the approval of 75% of the combined voting power of the outstanding shares of Blockbuster common stock is required to amend certain provisions of Blockbuster's certificate of incorporation and bylaws as described in the section entitled "Comparison of Stockholders Rights" beginning on page 128. In addition, amendments to Blockbuster's certificate of incorporation that would alter or change the powers, preferences or special rights of either class of Blockbuster common stock so as to affect them adversely must be approved by a majority of the votes entitled to be cast by the holders of the shares of the class of common stock affected by the amendment, voting as a separate class. Holders of Blockbuster class A common stock are not entitled to vote on any change in the powers or other rights of the Blockbuster class B common stock that would not adversely affect the rights of the Blockbuster class A common stock. For example, any provision for the conversion of Blockbuster class B common stock into Blockbuster class A common stock on a one-for-one basis is not considered to adversely affect the rights of the Blockbuster class A common stock. Following the effectiveness of the Blockbuster charter amendments, holders of Blockbuster class A common stock will not be entitled to vote on any change in the powers or other rights of the Blockbuster class B common stock that would adversely affect the rights of the Blockbuster class B common stock and would not adversely affect the rights of the Blockbuster class A common stock.

*Dividends.* Holders of Blockbuster class A and class B common stock will share equally in any dividend declared by Blockbuster's board of directors, subject to any preferential rights of any outstanding preferred stock. Dividends consisting of shares of Blockbuster class A and class B common stock may be paid only as follows:

shares of Blockbuster class A common stock may be paid only to holders of shares of Blockbuster class A common stock, and shares of Blockbuster class B common stock may be paid only to holders of Blockbuster class B common stock; and

shares shall be paid proportionally with respect to each outstanding share of Blockbuster class A and class B common stock.

*Conversion.* Prior to the tax-free split-off (as described below), each share of Blockbuster class B common stock is convertible at the option of the holder of such share into one share of Blockbuster class A common stock.

To the extent that Viacom beneficially owns 80% or more of the economic value of Blockbuster immediately prior to the tax-free split-off, each share of Blockbuster class B common stock will be automatically converted into one share of Blockbuster class A common stock immediately prior to the tax-free split-off, unless, prior to the tax-free split-off, Viacom has obtained and delivered to Blockbuster an opinion from its counsel that the effect of such conversion is likely to prevent or materially delay obtaining a favorable ruling from the IRS that the tax-free split-off would qualify as a tax-free transaction under the Internal Revenue Code, or will create a significant risk of material adverse tax consequences to Viacom or its stockholders. Prior to the completion of the tax-free split-off, Viacom will convert [ ] shares of Blockbuster class B common stock it owns into shares of Blockbuster class A common stock on a one-for-one basis. Following the effectiveness of the Blockbuster charter amendments, the outstanding shares of Blockbuster class B common stock will no longer be convertible into shares of Blockbuster class A common stock.

As used in Blockbuster's certificate of incorporation, the term "tax-free split-off" means any transfer effected in connection with a distribution of Blockbuster class A or class B common stock to Viacom stockholders (including any distribution in exchange for shares of Viacom's capital stock or securities) that is intended to qualify as a tax-free distribution under Section 355 of the Internal Revenue Code.



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*Other Rights.* In the event of a liquidation, dissolution or winding-up of Blockbuster, all holders of Blockbuster common stock, regardless of class, are entitled to share ratably in any assets available for distributions to holders of shares of Blockbuster common stock.

The outstanding shares of Blockbuster common stock are, and the shares of Blockbuster class A and class B common stock being offered to you will be, upon your payment, validly issued, fully paid and nonassessable.

## **Preferred Stock**

Blockbuster's board of directors is empowered, without the approval of Blockbuster's stockholders, to cause shares of preferred stock to be issued from time to time in one or more series, with the numbers of shares of each series and the designations, preferences and relative, participating, optional, dividend and other special rights of the shares of each such series and the qualifications, limitations, restrictions, conditions and other characteristics thereof as fixed by Blockbuster's board of directors. Among the specific matters that may be determined by Blockbuster's board of directors are the following:

the designation of each series;

the number of shares of each series;

the rate of dividends, if any;

whether dividends, if any, shall be cumulative or noncumulative;

the terms of redemption, if any;

the rights of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of Blockbuster;

the rights and terms of conversion or exchange, if any;

the restrictions on the issuance of shares of the same series or any other series, if any; and

the voting rights, if any.

Blockbuster's board of directors may, without stockholder approval, issue preferred stock with voting and other rights that could have an adverse impact on the rights of the holders of Blockbuster class A and class B common stock, including, without limitation, their voting power.

Blockbuster has no present plans to issue any shares of preferred stock. The ability of Blockbuster's board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change in control of Blockbuster or the removal of Blockbuster's existing management.

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Following the effectiveness of the Blockbuster charter amendments, in addition to the specific matters enumerated above, Blockbuster's board of directors will also be authorized to determine whether preferred shares will be subject to the operation of retirement or sinking funds.

### **Limitation on Liability of Directors**

Blockbuster's certificate of incorporation provides that its directors will not be personally liable to Blockbuster or its stockholders for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law, except for liability:

for any breach of the director's duty of loyalty to Blockbuster or its stockholders;

for any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or

for any transaction from which the director derived an improper personal benefit.

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The inclusion of this provision in Blockbuster's certificate of incorporation may have the effect of reducing the likelihood of derivative litigation against its directors and may discourage or deter Blockbuster or its stockholders from bringing a lawsuit against Blockbuster's directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited Blockbuster and its stockholders.

### **Anti-Takeover Provisions of Blockbuster's Certificate of Incorporation and Bylaws; Delaware Law**

Some of the provisions of Blockbuster's certificate of incorporation and bylaws and Section 203 of the DGCL could have the following effects, among others:

delaying, deferring or preventing a change in control of Blockbuster;

delaying, deferring or preventing the removal of Blockbuster's existing management or directors;

detering potential acquirors from making an offer to Blockbuster's stockholders; and

limiting Blockbuster's stockholders' opportunity to realize premiums over prevailing market prices of the Blockbuster common stock in connection with offers by potential acquirors.

The following is a summary of those provisions of Blockbuster's certificate of incorporation and bylaws that could have the effects described above.

*Classified Board of Directors.* Blockbuster's certificate of incorporation and bylaws provide for its board of directors to be divided into three classes of directors serving staggered three-year terms. Each class, to the extent possible, will be equal in number. The size of Blockbuster's board of directors will not be less than three nor more than twelve. Each class holds office until the third annual stockholders' meeting for election of directors following the most recent election of such class.

*Directors, and Not Stockholders, Fix the Size of Blockbuster's Board of Directors.* Blockbuster's certificate of incorporation and bylaws provide that the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of Blockbuster's board of directors, but in no event shall it consist of less than three nor more than twelve.

*Directors are Removed for Cause Only.* Blockbuster's certificate of incorporation and bylaws provide that, on or after the time when Viacom and its affiliates no longer beneficially own more than a majority of the combined voting power of Blockbuster's outstanding common stock, which is referred to in this Prospectus-Offer to Exchange as the trigger date, Blockbuster's directors may be removed only for cause and only by the affirmative vote of the holders of at least a majority of the combined voting power of Blockbuster's outstanding voting common stock. To the extent permitted by the laws of the State of Delaware, cause shall be determined by Blockbuster's board of directors. However, prior to the trigger date, Blockbuster's directors may be removed with or without cause by the affirmative vote of the holders of at least a majority of the combined voting power of Blockbuster's outstanding voting common stock. Following the effectiveness of the Blockbuster charter amendments, the reference to the trigger date will be deleted and the Blockbuster charter amendments will provide that Blockbuster's directors may only be removed for cause by the affirmative vote of the holders of at least a majority of the combined voting power of Blockbuster common stock.



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*Board Vacancies to Be Filled by Remaining Directors and Not Stockholders.* Blockbuster's certificate of incorporation and bylaws provide that any vacancies on its board of directors will be filled by the affirmative vote of the majority of the remaining directors then in office, even if such directors constitute less than a quorum, or by a sole remaining director. In any event, no vacancy shall be filled by Blockbuster's stockholders.

*No Stockholder Actions by Written Consent.* Blockbuster's bylaws provide that, on or after the trigger date, stockholders may not act by written consent in lieu of a meeting, except as otherwise provided pursuant to

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provisions of Blockbuster's certificate of incorporation. However, prior to the trigger date, stockholders, or any class or classes, or series thereof may act by written consent as permitted by law. Following the effectiveness of the Blockbuster charter amendments, the reference to the trigger date will be deleted and the Blockbuster certificate of incorporation will provide that, except as otherwise provided in Blockbuster's certificate of incorporation as it may be amended, stockholders may not take action by written consent in lieu of a meeting.

*No Special Meetings Called by Stockholders.* Blockbuster's bylaws provide that, on or after the trigger date, special meetings of the stockholders may not be called by the stockholders and instead may be called only by:

any officer at the request of a majority of Blockbuster's board of directors;

Blockbuster's chairman of the board; or

Blockbuster's chief executive officer.

However, prior to the trigger date, special meetings also may be called by holders of at least the majority of the combined voting power of Blockbuster's outstanding common stock. Following the effectiveness of the Blockbuster charter amendments, the reference to the trigger date will be deleted and the Blockbuster bylaws will provide that special meetings of the stockholders may not be called by stockholders and may be called in the circumstances listed above.

*Advance Notice for Stockholder Proposals.* Blockbuster's bylaws contain provisions requiring that advance notice be delivered to Blockbuster of any business to be brought by a stockholder before an annual meeting and providing for procedures to be followed by stockholders in nominating persons for election to Blockbuster's board of directors. Generally, such advance notice provisions require that a stockholder must give written notice to Blockbuster not less than 120 calendar days before the date on which Blockbuster's proxy statement is to be released to stockholders in connection with Blockbuster's previous year's annual meeting or such other time period as may be required or permitted by applicable law. Blockbuster's bylaws provide that the notice must set forth specific information regarding the stockholder and each director nominated by the stockholder and other business proposed by the stockholder. Blockbuster's certificate of incorporation and bylaws provide that as long as Viacom beneficially owns 30% or more of the combined voting power of the outstanding common stock of Blockbuster, Viacom is exempt from the foregoing provision.

Following the effectiveness of the Blockbuster charter amendments, the Blockbuster bylaw provisions relating to advance notice for stockholder proposals will provide, among other things, that (i) in general, a stockholder wishing to nominate a director or raise another proposal at an annual meeting of stockholders must notify Blockbuster in writing between 90 and 120 days prior to the first anniversary of the previous year's annual meeting of stockholders and (ii) in the case of a special meeting of stockholders, a stockholder entitled to vote at the special meeting may nominate a director by notifying Blockbuster in writing between 90 and 120 days prior to the special meeting or the tenth day following the day on which public announcement of the special meeting is first made.

*Supermajority Vote Required to Amend Specified Provisions.* Blockbuster's certificate of incorporation and bylaws provide that the provisions described above may only be amended by holders of at least 75% of the combined voting power of Blockbuster's outstanding common stock.

## **Section 203 of the Delaware General Corporation Law**

Blockbuster, a Delaware corporation, is subject to Section 203 of the DGCL. Generally, Section 203 of the DGCL prohibits a publicly held Delaware company from engaging in a business combination (as described below) with an interested stockholder (as described below) for a period of three years after the time such

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stockholder became an interested stockholder unless certain specified conditions are satisfied. The prohibitions set forth in Section 203 of the DGCL do not apply if:

prior to the time the stockholder became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding specified shares; or

at or subsequent to the time the stockholder became an interested stockholder, the business combination is approved by the board of directors and authorized at an annual or special meeting, and not by written consent, by the affirmative vote of at least 66<sup>2</sup>/3% of the outstanding voting stock that is not owned by the interested stockholder.

Under Section 203 of the DGCL, a business combination includes:

any merger or consolidation of the corporation with the interested stockholder;

any sale, lease, exchange or other disposition, except proportionately as a stockholder of such corporation, to or with the interested stockholder of assets of the corporation having an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation or the aggregate market value of all the outstanding stock of the corporation;

transactions resulting in the issuance or transfer by the corporation of stock of the corporation to the interested stockholder;

transactions involving the corporation, which have the effect of increasing the proportionate share of the corporation's stock of any class or series that is owned by the interested stockholder; or

transactions in which the interested stockholder receives financial benefits provided by the corporation.

Under Section 203 of the DGCL, an interested stockholder generally is:

any person that owns 15% or more of the voting power of outstanding stock of the corporation;

any person that is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether or not such person is an interested stockholder; and

the affiliates or associates of either of the preceding two categories.

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Because Viacom owned more than 15% of Blockbuster's voting stock before Blockbuster became a public company, following Blockbuster's initial public offering, the restrictions contained in Section 203 of the DGCL, by their terms, are currently not applicable to business combinations with Viacom even though Viacom owns more than 15% of the voting power of Blockbuster's outstanding stock. If any other person acquires 15% or more of the voting power of Blockbuster's outstanding voting stock, such person will be subject to the restrictions contained in Section 203 of the DGCL.

Under some circumstances, Section 203 of the DGCL makes it more difficult for an interested stockholder to effect various business combinations with Blockbuster for a three-year period, although Blockbuster's stockholders may elect to exclude the interested stockholder from the restrictions imposed thereunder. By virtue of Viacom's beneficial ownership of Blockbuster's class B common stock, Viacom is in a position to elect to exclude Blockbuster from the restrictions under Section 203 of the DGCL. Currently, Viacom has indicated to Blockbuster that it has no intention to do so.

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In addition, Section 203 of the DGCL makes a takeover of a company more difficult and may have the effect of diminishing the possibility of certain types of two-step acquisitions or other unsolicited attempts to acquire a company. This may further have the effect of preventing changes in the board of directors of a company, and it is possible that such provisions could make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

### **Transactions with Interested Parties**

Blockbuster's certificate of incorporation includes provisions addressing potential conflicts of interest between Viacom and Blockbuster and Viacom's non-Blockbuster-related subsidiaries and other similar entities. In addition, Blockbuster's certificate of incorporation includes provisions regulating and defining Viacom's conduct with respect to Blockbuster and Viacom's and Blockbuster's subsidiaries, directors and officers. Blockbuster's certificate of incorporation provides that no contract or transaction:

between Viacom and Blockbuster or any of Viacom's non-Blockbuster-related subsidiaries and other similar entities; or

between Blockbuster and any entity in which one or more of Blockbuster's directors or officers has a financial interest, which is referred to in this Prospectus-Offer to Exchange as a related entity; or

between Blockbuster and any of Viacom's directors or officers, Blockbuster or any of Viacom's subsidiaries or any related entity;

shall be void or voidable solely because:

Viacom, any non-Blockbuster-related subsidiary or other similar Viacom entity or any related entity, or any of Viacom's or Blockbuster's directors or officers are parties to the contract or transaction; or

any of those directors or officers is present at or participates in the meeting of the board of directors or committee thereof that authorizes the contract or transaction.

Following the effectiveness of the Blockbuster charter amendments, the provisions addressing transactions with interested parties will be deleted from Blockbuster's certificate of incorporation and Blockbuster's amended and restated bylaws will contain similar provisions. The bylaws will provide that no contract or transaction:

between Blockbuster and any related entity (as defined above); or

between Blockbuster and any of its directors or officers;

shall be void or voidable solely:

for the above reasons;

because the director or officer is present at or participates in the meeting of the board of directors or committee thereof that authorizes the contract or transaction; or

because any such director's or officer's votes are counted for such purpose;

if:

the material facts as to the director's or officer's relationship or interest as to the contract or transaction are disclosed or are known to the board of directors or committee thereof and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even if such disinterested directors constitute less than a quorum; or

the material facts as to the director's or officer's relationship or interest as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by the vote of the stockholders entitled to vote thereon; or

the contract or transaction is fair to Blockbuster at the time it is authorized by the board of directors, a committee thereof or the stockholders.

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**Corporate Opportunities**

Blockbuster's certificate of incorporation provides that, except as Viacom may otherwise agree in writing, neither Viacom nor any non-Blockbuster-related subsidiary or other similar Viacom entity has a duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as those business activities conducted by Blockbuster.

The provisions of Blockbuster's certificate of incorporation described above, as they apply to Viacom, will expire on the date that (1) Viacom and its subsidiaries no longer own at least 20% of the combined voting power of Blockbuster's outstanding class A and class B common stock and (2) no person who is a director or officer of Blockbuster is also a director or officer of Viacom or one of its subsidiaries.

Following the effectiveness of the Blockbuster charter amendments, Blockbuster's certificate of incorporation will no longer include provisions addressing corporate opportunities.

**Transfer Agent and Registrar**

EquiServe Trust Company, N.A. is the transfer agent and registrar for the shares of Blockbuster class A common stock.



**Table of Contents****COMPARISON OF STOCKHOLDER RIGHTS**

Upon completion of this exchange offer, Viacom stockholders who exchange their shares of Viacom class A or class B common stock for Blockbuster class A and class B common stock will become stockholders of Blockbuster. These holders' rights will continue to be governed by Delaware law and will be governed by Blockbuster's certificate of incorporation and bylaws. Because Viacom and Blockbuster are both organized under the laws of the State of Delaware, differences in the rights of a stockholder of Viacom from those of a stockholder of Blockbuster arise principally from provisions of the certificates of incorporation and bylaws of each of Viacom and Blockbuster.

The following is a summary of certain important differences between Blockbuster's certificate of incorporation and bylaws and Viacom's certificate of incorporation and bylaws. To the extent any of the provisions of Blockbuster's certificate of incorporation and bylaws described below will be amended by the Blockbuster charter amendments, which will be filed and become effective immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer, a description of these revised provisions is included.

This summary is not a complete statement of the rights of stockholders of the two companies or a complete description of the specific provisions referred to below. This summary is qualified in its entirety by reference to Viacom's and Blockbuster's certificates of incorporation and bylaws, which you should read. Copies of these documents have been filed with the SEC. To find out where you can get copies of these documents, see the section entitled "Where You Can Find More Information About Viacom and Blockbuster" beginning on page 139.

**AUTHORIZED CAPITAL STRUCTURE AND LIQUIDATION RIGHTS OF****BLOCKBUSTER AND VIACOM****(AS OF MAY 21, 2004)**

<u>CLASS OF SECURITY</u>	<u>AUTHORIZED</u>	<u>OUTSTANDING</u>	<u>LIQUIDATION PREFERENCE</u>
<b><u>Blockbuster:</u></b>			
Blockbuster class A common stock, par value \$0.01 per share	400 million	37,088,131	None
Blockbuster class B common stock, par value \$0.01 per share	500 million	144 million	None
Blockbuster preferred stock, par value \$0.01 per share	100 million	None	Not applicable
<b><u>Viacom:</u></b>			
Viacom class A common stock, par value \$0.01 per share	750 million	132,090,787	None
Viacom class B common stock, par value \$0.01 per share	10 billion	1,600,721,937	None
Viacom preferred stock, par value \$0.01 per share	25 million	None	Not applicable

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STOCKHOLDER RIGHTS	BLOCKBUSTER	VIACOM
Dividend Policy	<p>Blockbuster has no legal or contractual obligation to pay dividends. However, Blockbuster has paid and currently intends to pay a quarterly dividend of \$0.02 per share on its common stock. Blockbuster's board of directors is free to change Blockbuster's dividend practices from time to time and to decrease or increase the dividend paid, or to not pay a dividend, on Blockbuster's common stock on the basis of results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by Blockbuster's board of directors, except that Blockbuster's credit agreement limits its ability to pay dividends. See the sections entitled "Market Prices and Dividend Information - Shares of Blockbuster Class A and Class B Common Stock and Dividends" beginning on page 72 and "Description of Other Material Agreements - New Blockbuster Credit Agreement" beginning on page 134.</p>	<p>Viacom has no legal or contractual obligation to pay dividends. In October 2003, Viacom began paying a quarterly cash dividend on its class A and class B common stock of \$0.06 per share. Dividends were paid on October 1, 2003, January 1, 2004, April 1, 2004 and July 1, 2004 to stockholders of record at the close of business on August 15, 2003, December 8, 2003, February 27, 2004 and June 1, 2004, respectively. On July 21, 2004, Viacom announced that it would pay a quarterly dividend on October 1, 2004 to stockholders of record at the close of business on August 31, 2004. Viacom's board of directors is free to change its dividend practices from time to time and to decrease or increase the dividend paid, or to not pay a dividend, on Viacom common stock on the basis of results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by Viacom's board of directors. See the section entitled "Market Prices and Dividend Information - Shares of Viacom Class A and Class B Common Stock and Dividends" on page 71.</p>
Voting, Generally	<p>Blockbuster class A common stock 1 vote per share.</p> <p>Blockbuster class B common stock 5 votes per share.</p> <p>The Blockbuster charter amendments provide that, after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Relationships Between Viacom and Blockbuster - Initial Public Offering and Split-Off Agreement" beginning on page 91.</p> <p>Plurality vote for directors, with class A common stock and class B common stock voting together as a single class.</p>	<p>Viacom class A common stock:</p> <p>1 vote per share.</p> <p>Majority vote for directors and most other matters.</p> <p>Viacom class B common stock:</p> <p>Except as required by Delaware law, this class has no voting rights or powers.</p>

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<b>STOCKHOLDER RIGHTS</b>	<b>BLOCKBUSTER</b>	<b>VIACOM</b>
	<p>Majority vote for most other matters, with class A common stock and class B common stock voting together as a single class.</p>	
	<p>For more details, see the section entitled Description of Capital Stock of Blockbuster Common Stock Voting Rights beginning on page 120.</p>	
<p>Stockholder Action by Written Consent</p>	<p>Following the effectiveness of the Blockbuster charter amendments, the Blockbuster charter amendments will provide that, except as otherwise provided in Blockbuster's certificate of incorporation as it may be amended, stockholders may not take action by written consent in lieu of a meeting.</p>	<p>Under Delaware law, unless the certificate of incorporation provides otherwise, stockholders may act by written consent if written consents are received from the holders of the minimum number of votes that would be necessary to authorize that action at a meeting at which all the shares entitled to vote for that action were present and voted. Viacom's certificate of incorporation does not restrict a stockholder's ability to act by written consent.</p>
<p>Number of Directors and Size of Board</p>	<p>Blockbuster's certificate of incorporation allows between three and 12 directors to serve on its board of directors and authorizes the board of directors to set the number of directors within the parameters set by the certificate of incorporation. Blockbuster's board of directors has set the current number of directors at eight.</p>	<p>Viacom's certificate of incorporation allows between three and 20 directors to serve on its board of directors and authorizes the board of directors to determine the number of directors from time to time. Viacom's board of directors has set the current number of directors at 14.</p>
<p>Term of Directors</p>	<p>Each director serves for three years. The directors are divided into three classes, and the terms of one-third of the directors expire each year.</p>	<p>Each director serves for a one-year term and until his or her successor is duly elected and qualified.</p>

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<b>STOCKHOLDER RIGHTS</b>	<b>BLOCKBUSTER</b>	<b>VIACOM</b>
Removal of Directors	<p>After Viacom no longer owns a majority of the combined voting power of outstanding Blockbuster common stock, directors may be removed only for cause by the affirmative vote of the holders of at least a majority of the combined voting power of outstanding Blockbuster common stock.</p> <p>Following the effectiveness of the Blockbuster charter amendments, the reference to Viacom's ownership of Blockbuster common stock will be deleted and Blockbuster's certificate of amendment will provide that Blockbuster's directors may only be removed for cause by the affirmative vote of the holders of at least a majority of the combined voting power of Blockbuster common stock.</p>	<p>Any or all of Viacom's directors may be removed with or without cause by Viacom stockholders who represent a majority of all of the aggregate voting power of outstanding shares of Viacom capital stock.</p> <p>Any director may be removed by a majority vote of Viacom's board of directors if either:</p> <p style="padding-left: 40px;">the director fails to meet the qualifications stated in Viacom's bylaws for election as a director; or</p> <p style="padding-left: 40px;">the director is in breach of any agreement with Viacom relating to such director's service as a director or employee of Viacom.</p>
Vacancies	<p>Vacancies are filled by a vote of the majority of directors then in office, even if less than a quorum is present.</p> <p>Following the effectiveness of the Blockbuster charter amendments, vacancies will be filled by a majority of the remaining directors then in office, except that if there are no directors then in office, an election of directors may be held in the manner provided for by the DGCL.</p>	<p>Vacancies are filled by a vote of the majority of directors then in office, even if less than a quorum is present. If there are no directors then in office, an election of directors may be held in the manner provided by the DGCL.</p>
Advance Notice Procedures for a Stockholder Proposal	<p>In general, a stockholder wishing to nominate a director or raise another proposal must notify Blockbuster in writing no less than 120 days prior to the date that Blockbuster's proxy statement is to be released to its stockholders in connection with Blockbuster's previous year's annual meeting of stockholders.</p> <p>This notice must contain specific information concerning the person to be nominated or the matters to be brought before the meeting as well as specific information concerning the stockholder submitting the proposal.</p>	<p>There are no provisions regarding advance notice of director nominations or stockholder proposals. A stockholder who wishes to nominate a director or raise another proposal must comply with any applicable provisions of the federal securities laws if such stockholder wishes to have the proposal included in Viacom's proxy statement.</p>



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STOCKHOLDER RIGHTS	BLOCKBUSTER	VIACOM
	<p>Viacom is exempt from these advance notice procedures as long as it beneficially owns 30% or more of the combined voting power of outstanding Blockbuster common stock.</p> <p>Following the effectiveness of the Blockbuster charter amendments, the provisions relating to advance notice for stockholder proposals will be modified as set forth above in the section entitled Description of Capital Stock of Blockbuster beginning on page 120. The foregoing paragraph regarding Viacom's ownership of Blockbuster common stock will be deleted.</p>	
<p>Calling of Special Meeting of Stockholders</p>	<p>After Viacom no longer owns a majority of the combined voting power of outstanding Blockbuster common stock, special meetings of Blockbuster stockholders may not be called by Blockbuster stockholders. These meetings may be called only by:</p> <p>any officer at the request of a majority of Blockbuster's board of directors;</p> <p>Blockbuster's chairman of the board of directors; or</p> <p>Blockbuster's chief executive officer.</p>	<p>Special meetings of Viacom stockholders may be called by the:</p> <p>majority vote of the board of directors;</p> <p>chairman of the board of directors;</p> <p>chief executive officer; and</p> <p>vice chairman of the board of directors.</p>
<p>Amendment</p>	<p>Following the effectiveness of the Blockbuster's bylaw amendments, the reference to Viacom's ownership of Blockbuster common stock will be deleted and Blockbuster's bylaws will provide that special meetings of the stockholders may not be called by stockholders and may be called only in the circumstances described above.</p> <p>Amendments to provisions of Blockbuster's certificate of incorporation and bylaws by Blockbuster stockholders relating to the following matters require 75% of the combined voting power of outstanding Blockbuster common stock:</p>	<p>Special meetings of Viacom stockholders must be called by the chairman of the board, the chief executive officer, the vice chairman of the board or secretary at the written request of stockholders representing at least 50.1% of the aggregate voting power of all outstanding shares of Viacom capital stock entitled to vote.</p> <p>Amendments to provisions of Viacom's certificate of incorporation and bylaws by Viacom stockholders do not require any supermajority vote, except as provided by Delaware law.</p>

stockholder action by written consent;

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STOCKHOLDER RIGHTS	BLOCKBUSTER	VIACOM
	number and election of directors;	
	expiration of terms (classified board);	
	vacancies on the board of directors;	
	removal of directors;	
	advance notice procedures for a stockholder proposal;	
	special meetings;	
	the amendment provisions; and	
	certain transactions with stockholders.	

Following the effectiveness of the Blockbuster charter amendments, any amendment to the provisions set forth above will continue to require 75% of the combined voting power of outstanding Blockbuster common stock, except that the provision relating to transactions with stockholders will no longer require such a vote. In addition, Blockbuster's amended and restated bylaws will provide that Blockbuster's board of directors is expressly authorized to amend the bylaws.



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**DESCRIPTION OF OTHER MATERIAL AGREEMENTS**

**New Blockbuster Credit Agreement**

Blockbuster has received a financing commitment for a new \$1.45 billion credit agreement with a syndicate of lenders to be entered into prior to the payment of the special distribution, which will be secured by pledges of the stock of certain direct and indirect subsidiaries of Blockbuster and guaranteed by the domestic subsidiaries of Blockbuster. The financing commitment provides for three facilities: (i) a seven-year \$500 million revolving credit facility (of which up to \$150 million will be reserved for the Viacom letter of credit); (ii) a seven-year \$200 million Term A Loan Facility; and (iii) a seven-year \$750 million Term B Loan Facility. At the initial drawing, Blockbuster expects to borrow \$950 million under the Term A and Term B Loan Facilities primarily for funding the special distribution.

Blockbuster will use the borrowings under its credit agreement:

to pay the special distribution of \$5.00 per share (approximately \$905 million in the aggregate) to its stockholders;

to pay certain of the transaction costs related to the special distribution, the split-off and Blockbuster's credit agreement; and

for working capital and general corporate purposes.

Blockbuster's credit agreement will contain provisions for certain mandatory reductions in loan commitments and certain mandatory repayments of loans, expected to be as follows:

Beginning after the end of the third year of the \$500 million revolving credit facility, the lenders' revolving credit commitment shall automatically reduce by 2.5% each quarter during the fourth, fifth and sixth years and terminate in full at the end of the seventh year of such revolving credit facility;

The \$200 million Term A Loan Facility will require quarterly principal repayments as follows: (a) installments aggregating 15% of the original principal balance of the Term A Loan Facility in each of years two through five of such facility; and (b) installments aggregating 20% of the original principal balance of the Term A Loan Facility in each of years six and seven of such facility;

The \$750 million Term B Loan Facility will require quarterly principal repayment as follows: (a) installments aggregating 1% of the original principal balance of the Term B Loan Facility in each of years two through four; (b) installments aggregating 10% of the original principal balance of the Term B Loan Facility in each of years five and six; and (c) an installment of 77% of the original principal balance of the Term B Loan Facility in year seven;

If Blockbuster sells assets, other than in connection with circumstances in which Blockbuster reinvests the proceeds in its business, Blockbuster will be required to use 50% of the net cash proceeds from such sales over an agreed amount to repay the Term A Loan Facility and the Term B Loan Facility ratably on the remaining scheduled principal installments of such facilities; and

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If Blockbuster issues debt securities within six months of the payment date of the special distribution, the proceeds of which are not used for acquisitions, Blockbuster will be required to use 100% of the net cash proceeds from such sales to repay the Term A Loan Facility and the Term B Loan Facility ratably on the remaining scheduled principal installments of such facilities.

Borrowings under Blockbuster's credit agreement will accrue interest at a rate equal to the interest rates prevailing on the London interbank market for the interest period selected by Blockbuster, plus a margin over this rate. The margin on any London interbank market based borrowings will vary based on specified leverage ratios. A fixed rate commitment fee will be charged on the unused portion of the facility.

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Blockbuster's credit agreement is expected to contain customary covenants for Blockbuster not to, among other things:

sell or transfer all or any substantial portion of its assets and those of its subsidiaries, taken as a whole, other than sales of stores in the ordinary course and consistent with past practice;

merge or consolidate;

make restricted payments, dividends or repurchases of stock other than (i) the special distribution, and (ii) up to an aggregate of (x) \$300 million plus (y) 50% of the net income of Blockbuster and its subsidiaries (before deducting provisions required by SFAS 142 and/or SFAS 123 or non-recurring expenses incurred in connection with the split-off) accruing after December 31, 2004, provided that certain reductions in Blockbuster's total leverage ratio have occurred, plus (z) the net cash proceeds of stock issuances by Blockbuster since December 31, 2003;

enter into transactions with affiliates unless such transactions are at arm's length;

incur additional indebtedness other than (i) commercial paper issuances; (ii) unsecured indebtedness of Blockbuster in an amount up to \$100 million; (iii) any subordinated indebtedness of Blockbuster; (iv) unsecured indebtedness of Blockbuster to refinance the terms loans under its credit agreement; (v) inter-company indebtedness; (vi) indebtedness of subsidiaries and secured indebtedness in amounts to be agreed on above an amount to be agreed on for Blockbuster's foreign subsidiaries; and (vii) subject to mandatory repayment requirements, refinancings of permitted indebtedness;

grant liens other than permitted liens;

make investments other than with respect to customary exceptions and agreed dollar baskets; or

make acquisitions unless after giving effect thereto Blockbuster shall be in compliance with the financial covenants in its credit agreement on a pro forma basis.

Blockbuster will also be required to comply with financial covenants with respect to: (1) maximum leverage ratio and (2) a minimum fixed charge coverage ratio. Blockbuster's credit agreement will also contain customary affirmative covenants.

Events of default under Blockbuster's credit agreement are expected to include, among others: failure to pay principal and interest when due; breach of some of the representations and warranties; failure to perform or observe some of the covenants; cross-default or cross-acceleration by any person or group with respect to indebtedness of Blockbuster and its subsidiaries greater than \$50 million; unsatisfied, unstayed judgments against Blockbuster greater than \$50 million; bankruptcy; and a change of control. Under Blockbuster's credit agreement, a change of control includes:

the acquisition by any person or group of more than 50% of the voting power of Blockbuster common stock; or

Blockbuster's board of directors ceasing to include a majority of continuing directors based on a Blockbuster post-split-off date board (after giving effect to any resignation and replacement of the Viacom-affiliated directors).

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The financing commitment is subject to customary conditions, including satisfactory documentation and no material adverse change in Blockbuster. Blockbuster may issue debt securities in a public or private sale in lieu of a substantial portion of the proposed Term A and Term B Loan Facilities.

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**SHARES ELIGIBLE FOR FUTURE SALE**

Shares of Blockbuster class A and class B common stock distributed to Viacom stockholders pursuant to this exchange offer will be freely transferable, except for shares of Blockbuster class A and class B common stock received by persons who may be deemed to be affiliates of Blockbuster under the Securities Act. Affiliates generally include individuals or entities that control, are controlled by, or are under common control with, Blockbuster. The directors and principal executive officers of Blockbuster, as well as significant stockholders of Blockbuster, will be affiliates. Affiliates of Blockbuster may sell their shares of Blockbuster class A and class B common stock only under an effective registration statement under the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act. Pursuant to the registration rights agreement, Blockbuster has filed a registration statement on Form S-3 to facilitate the public resale of any Blockbuster class A and class B common stock received by NAIRI, Mr. Sumner M. Redstone or any of their respective affiliates in any spin-off.

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**LEGAL MATTERS**

The validity of the shares of Blockbuster class A and class B common stock offered hereby and certain legal matters with respect to the transaction will be passed upon for Viacom and Blockbuster by Vinson & Elkins L.L.P., Dallas, Texas. Certain tax matters will be passed upon for Viacom and Blockbuster by Cravath, Swaine & Moore LLP, New York, New York.

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**EXPERTS**

The consolidated financial statements of Blockbuster as of December 31, 2003 and 2002 and for each of the three years for the period ended December 31, 2003 included in this Prospectus-Offer to Exchange and the consolidated financial statements and related financial statement schedule of Viacom incorporated in this Prospectus-Offer to Exchange by reference to Viacom's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 have been so included and incorporated by reference, respectively, in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

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**WHERE YOU CAN FIND MORE INFORMATION**

**ABOUT VIACOM AND BLOCKBUSTER**

Viacom and Blockbuster file annual, quarterly and special reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at the SEC's Public Reference Room, located at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the SEC at the above address, at prescribed rates.

The SEC also maintains a website that contains reports, proxy statements and other information that Viacom and Blockbuster file electronically with the SEC. The address of that website is <http://www.sec.gov>.

Shares of Viacom class A and class B common stock are listed on the New York Stock Exchange. Shares of Blockbuster class A common stock are listed on the New York Stock Exchange. You may also inspect reports, proxy statements and other information about Viacom and Blockbuster at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Blockbuster has filed a Registration Statement on Form S-4 under the Securities Act, of which this Prospectus-Offer to Exchange forms a part, to register with the SEC the shares of Blockbuster class A and class B common stock to be issued in this exchange offer to Viacom stockholders whose shares of Viacom class A or class B common stock are accepted for exchange. Viacom will file a Tender Offer Statement on Schedule TO with the SEC with respect to this exchange offer. This Prospectus-Offer to Exchange constitutes Viacom's offer to exchange, in addition to being a prospectus of Blockbuster. This Prospectus-Offer to Exchange does not contain all the information set forth in the Registration Statement, the exhibits to the Registration Statement or the Schedule TO, selected portions of which are omitted in accordance with the rules and regulations of the SEC. For further information pertaining to Viacom, Blockbuster, the Blockbuster class A common stock and the Blockbuster class B common stock, reference is made to the Registration Statement and its exhibits. Statements contained in this Prospectus-Offer to Exchange or in any document incorporated herein by reference as to the contents of any contract or other document referred to within this Prospectus-Offer to Exchange or other documents that are incorporated herein by reference are not necessarily complete and, in each instance, reference is made to the copy of the applicable contract or other document filed as an exhibit to the Registration Statement or otherwise filed with the SEC. Each statement contained in this Prospectus-Offer to Exchange is qualified in its entirety by reference to the underlying documents.

The SEC allows certain information to be incorporated by reference into this Prospectus-Offer to Exchange, which means that Viacom and Blockbuster can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this Prospectus-Offer to Exchange, except for any information superseded by information contained directly in this Prospectus-Offer to Exchange. This Prospectus-Offer to Exchange incorporates by reference the documents set forth below that Viacom and Blockbuster have previously filed with the SEC. These documents contain important information about Viacom and Blockbuster, their businesses and their financial conditions:

**Viacom's SEC Filings**

Viacom's Annual Report on Form 10-K for the year ended December 31, 2003;



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Viacom's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004;

Viacom's Definitive Proxy Statement filed on April 15, 2004;

Viacom's Current Reports on Form 8-K filed on June 1, 2004, June 18, 2004 and July 22, 2004 (with respect to employment agreements), respectively; and

The section entitled "Description of Common Stock" set forth in Viacom's Registration Statement on Form S-3 filed on June 13, 2001.

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**Blockbuster's SEC Filings**

Blockbuster's Annual Report on Form 10-K for the year ended December 31, 2003;

Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004;

Blockbuster's Definitive Proxy Statement filed on July 6, 2004; and

Blockbuster's Current Report on Form 8-K filed on July 8, 2004;

The description of Blockbuster's class A common stock set forth in Blockbuster's Registration Statement on Form 8-A (No. 001-15153) filed on July 13, 1999.

The description of Blockbuster's class B common stock set forth in Blockbuster's Registration Statement on Form 8-A filed on [     ], 2004.

All documents filed by Viacom and Blockbuster pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this Prospectus-Offer to Exchange to the date that shares are accepted for exchange pursuant to this exchange offer (or the date that this exchange offer is terminated) shall also be deemed to be incorporated into this Prospectus-Offer to Exchange by reference, which excludes any information furnished pursuant to Item 9 or Item 12, or, as of or after August 23, 2004, Item 2.02 or Item 7.01 of any current report on Form 8-K.

**Documents incorporated by reference are available without charge upon request to Viacom's information agent, [     ]. In order to ensure timely delivery, any request should be submitted no later than [     ], 2004. If you request any incorporated documents, Viacom will mail them to you within one business day after receiving your request.**

Viacom and Blockbuster have not authorized anyone to give any information or make any representation about this exchange offer that is different from, or in addition to, that contained in this Prospectus-Offer to Exchange or in any of the materials that Viacom and Blockbuster have incorporated by reference into this Prospectus-Offer to Exchange. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

**Table of Contents****SCHEDULE I DIRECTORS AND EXECUTIVE OFFICERS OF VIACOM**

The following table sets forth the name, title and business address of each of Viacom's directors, executive officers and controlling persons as of July 28, 2004.

<u>Name</u>	<u>Title</u>
Sumner M. Redstone	Chairman of the Board of Directors and Chief Executive Officer
Tom Freston	Co-President and Co-Chief Operating Officer
Leslie Moonves	Co-President and Co-Chief Operating Officer
Richard J. Bressler	Senior Executive Vice President and Chief Financial Officer
Carl D. Folta	Senior Vice President, Corporate Relations
Robert G. Freedline	Senior Vice President, Treasurer
Michael D. Fricklas	Executive Vice President, General Counsel and Secretary
Susan C. Gordon	Senior Vice President, Controller and Chief Accounting Officer
Carol A. Melton	Senior Vice President, Government Affairs
William A. Roskin	Senior Vice President, Human Resources and Administration
Martin M. Shea	Senior Vice President, Investor Relations
George S. Abrams	Director
David R. Andelman	Director
Joseph A. Califano, Jr.	Director
William S. Cohen	Director
Philippe P. Dauman	Director
Alan C. Greenberg	Director
Jan Leschly	Director
David T. McLaughlin	Director
Shari Redstone	Director
Frederic V. Salerno	Director
William Schwartz	Director
Patty Stonesifer	Director
Robert D. Walter	Director

The address of each director and/or executive officer listed above is c/o Viacom Inc., 1515 Broadway, New York, New York 10036.

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**ANNEX A BLOCKBUSTER S ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2003**

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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 December 31, 2003.

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**  
(State or other jurisdiction of  
incorporation or organization)

**52-1655102**  
(I.R.S. Employer  
Identification Number)

1201 Elm Street  
Dallas, Texas 75270

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(214) 854-3000

(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:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A 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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

As of June 30, 2003, 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 about \$592,363,064, based on the closing price of \$16.85 per share of class A common stock as reported on the New York Stock Exchange composite tape on that date.

As of March 1, 2004, 36,978,806 shares of class A common stock, \$.01 par value per share, and 144,000,000 shares of class B common stock, \$.01 par value per share, were outstanding.

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**BLOCKBUSTER INC.**

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