

BLOCKBUSTER INC  
Form DEFA14A  
June 11, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

# **BLOCKBUSTER INC.**

(Exact Name of Registrant as Specified in Its Charter)

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- No fee required.
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The following are materials Blockbuster Inc. provided to RiskMetrics Group on June 10, 2010.

Strictly Private and Confidential  
Blockbuster Inc.  
Management Presentation  
June 2010

1  
Strictly Private and Confidential  
Disclosure Regarding Forward-Looking Statements

This  
presentation  
contains  
forward-looking  
statements  
within  
the  
meaning  
of  
Section  
27A  
of  
the  
Securities  
Act  
of  
1933  
and Section

21E of the Securities Exchange Act of 1934. Forward-looking statements may also be included from time to time in our other public filings, press releases, our website and oral and written presentations by management. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as may,

will,  
expects,  
believes,  
anticipates,  
plans,  
estimates,  
projects,  
predicts,  
targets,  
seeks,  
could,  
intends,  
foresees

or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe our strategies, initiatives, objectives, plans or goals are forward-looking.

These forward-looking statements are based on management's current intent, belief, expectations, estimates and projections.

These  
statements  
are  
not  
guarantees  
of

future performance and involve risks, uncertainties, assumptions and other factors that are difficult to predict. Therefore, actual results may vary materially from what is expressed in or indicated

by the forward-looking statements.

The risk factors set forth under

Item 1A.

Risk Factors in our

Annual Reports on Form 10-K and other matters discussed from time to time in our filings with the Securities and Exchange Commission, including the

Disclosure Regarding Forward-Looking Information and

Risk Factors sections of our

Quarterly Reports on Form 10-Q, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements.

In the event that the risks disclosed in our public filings and those discussed above cause results to differ materially from those expressed in our forward-looking statements, our business, financial condition, results of operations or liquidity could be materially adversely affected and investors in our securities could lose part or all of their investments.

Accordingly, our investors are cautioned not to place undue reliance on these forward-looking statements because, while we believe the assumptions on which the forward-looking statements are based are reasonable, there can be no assurance that these forward-looking statements will prove to be accurate.

Further, the forward-looking statements included in this presentation and those included from time to time in our other public

filings,  
press  
releases,  
our  
website  
and  
oral  
and  
written  
presentations  
by  
management  
are  
only  
made  
as  
of  
the

respective dates thereof. We undertake no obligation to update publicly any forward-looking statement in this presentation or in other documents, our website or oral statements for any reason, even if new information becomes available or other events occur in the future.



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Blockbuster's integrated approach will address evolving customer needs

Consumers

demand

the

entertainment

experience

deliver

on

several

functional

needs,

and

Blockbuster's integrated approach will address these and other evolving needs

New

Blockbuster

Convenience

1

I can get what I want, when I

want

on my own schedule

2

Choice/Variety

I get the RIGHT movie plus I

have choices in how I get it

3

Service/No Hassle

I want an experience which does

not detract from leisure time

4

Cost/Value

I get value from renting when it

meets all my needs

3

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Blockbuster Value = Price + Convenience/Choice/Service

Premium Price,

Superior Service & Experience

1995

2010

Low Price,

Basic Service

2005

2010

2011+

4  
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8%  
(5%)  
16%  
12%  
09 -  
14  
CAGR  
25%  
(10%)  
NA  
20%  
05 -  
09  
CAGR

Source: Adams Media Research  
Industry Transformation

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20-30%

Shift to Blockbuster

Unaware

60-70%

Awareness

Other

Customer Awareness

of Window

Behavior Attributable

to Window

Q1.: Are you aware that some new DVD and Blu-ray releases from certain studios will not be available to rent from [Redbox]

Q1a.: How is this likely to impact how you watch new releases?

Source: Hansa

GCR research for Blockbuster (sample of 428 people)

Window Awareness

Could

equate to 8-

15 million

new  
customers  
for  
Blockbuster







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Source: NPD VideoWatch report, company analysis

Windows could be the stabilization catalyst for Blockbuster

Blockbuster

Netflix

Hollywood/

Mov. Gall.

Redbox

Over the last 6 months, rental transaction share has been relatively stable, and with recent windows, Blockbuster is regaining customer traction

Rental Transaction Share

Rental Transaction Share on Key

Recent Releases

60%

share

65%

share

40%

share

(no ads or

POP

support)



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Potential Impact of Rental Window

Relatively small shifts in the overall rental marketplace can have tremendously large benefits to Blockbuster's financial outlook (in \$ billions)

Note:

Assumes ~25% of total 600 million vending industry rents could shift, of which Blockbuster captures 50% (12% of total rents)

~5% of total 1 billion subscription

rents could shift, of which Blockbuster captures 50% (3% of total rents); Blended overall shift of rents is 6% to Blockbuster

Blockbuster could increase its revenues by 30% if only 6%

of vending and subscription rents shift

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Blockbuster Transformation  
New Value Proposition  
From  
Convenient store  
locations

To  
Multi-channel  
access  
to  
any  
movie,  
anytime,  
anywhere  
Hot  
new  
release  
focus  
with  
28  
day  
exclusive  
product  
across  
channels  
Unique product through Premieres offering  
Product diversification (games, CE, services)  
Perceived high prices  
and late fees for  
commoditized product  
Premium provider for:

Unique product (28 day window and Premieres)

Convenient experience: one-customer platform and superior service  
Managed  
dissatisfaction  
Increase customer satisfaction through 100% product availability  
Get  
It  
Now-  
any  
movie,  
anytime,  
anywhere

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Stores

By-Mail

Automated

Retail

Digital

Progress Despite Capital Constraints

Windows

Simplified pricing

Charts and edited  
choice in movies and  
games

Winning 100

store

pilots

Direct Access launch

Consignment



merchandise  
Partnership  
opportunities  
Windows  
Slot  
optimization  
Website  
improvement  
Direct Access  
Games by mail  
launch  
Over 4K  
locations  
deployed to  
date  
Successful  
partnership on  
catalog product  
Integrated in more  
than 70 different  
consumer  
electronic devices  
Mobile launch

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Preserve core rental business

In-stock on new releases

Direct access (by-mail  
access to 125K titles)

Exclusive content

Launch new accretive  
pricing program

Diversify product offering

Movies

Games

CE

Other

Build multi-channel access

awareness and cross

merchandising product offers

Stores will continue as cornerstone business with significant EBITDA and free cash flow contribution

2

4

1

3

Grow games rental business

Strategic Direction

Store Priorities and Opportunities

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Product Diversification

1

Exclusives and Customer Experience

Merchandising and layout changes

Service

Edited choice

Games

2

Invest in games inventory

2008 efforts: increased inventory by \$50M,

drove \$110M top line increase

GameStop has experienced average same store sales growth of approx. 10% per year for the last 4 years

Capitalize on increasing trend of mainstream gaming currently underserved by major players in the industry

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Titles Drive Rental Comps

The quality and quantity of titles drives period-by-period rental comparables

-20.0%

-10.0%

0.0%

10.0%

20.0%

30.0%

40.0%

50.0%

-40.0%

-20.0%

0.0%

20.0%

40.0%

60.0%  
80.0%  
100.0%  
NRR comp  
Unit comp  
2007  
2008  
2009  
2010

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Real Estate Summary and Store Rationalization

Store Portfolio Indicators for LTM period ending January 3, 2010

We continue to focus on portfolio optimization opportunities by closing unprofitable stores and refocusing efforts to improve 4-wall profitability

Note:

Store  
financial  
figures  
reflect  
inclusion  
of  
allocated  
chain-wide  
adjustments;  
includes  
allocation  
of  
field  
management  
costs;  
based  
on  
3,070  
go



forward

stores

as

of

Mar

2010

Core

Profitable non-core

Unprofitable

Percentage of Store EBITDA

# of Stores

1,151

1,456

463

Avg. Store Revenue:	\$719K	\$859K
---------------------	--------	--------

Avg. Store Gross Profit:	\$414K	\$500K
--------------------------	--------	--------

Avg. Store EBITDA:	\$64K	\$136K
--------------------	-------	--------

Total

Average

Average

Core

Average LED

3.1 yrs

2.4yrs

2.4yrs

EBITDA (\$M)

\$156.1

\$52.8

(\$13.7)

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The Winning Store Formula

4-6% TNR comp improvement

3-4% Gross profit improvement

2% increase in total visits

Results

(vs

Control)

Store refresh (paint, TVs)

Improved signage

Additional weekend labor

Improved merchandising

Winning

Stores

will

be

constructed

using

the

best

performing

elements

from

the

current

Lab

stores and will work to define the future Blockbuster in-store experience

Primary Elements

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By-Mail Opportunities

Competitive differentiation

provide immediate gratification with in-store exchange

2

5

1

4

Grow Direct Access (a la carte)

business

Enhance overall online experience

Grow subscriber base

New strategic partnerships (cable)

Improved customer acquisition  
Leverage multi-channel convenience  
Focus on product improvement

Targeted offerings (Kids, Hispanic)

New games offering  
3  
Strategic Direction

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Automated Retail Opportunities

Integrate the vending business into our  
multi-channel

offering

-

kiosk

network

complements our stores

Leverage distribution / studio

relationships

Develop hub and spoke logistics model

for inventory management and

distribution efficiency

Enable digital distribution  
Rationalize big box and small box  
portfolio for optimal trade area coverage

Mission:

Provide  
value  
and  
convenience  
by  
extending  
our  
physical  
footprint  
and  
preparing  
for  
widespread digital adoption

2

4

1

3

Strategic Direction

5

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Successful Retailer Relationships

Key Statistics

Currently deployed at over 110 host partners

Serving grocery, mass, drug, c-store, higher education, restaurant, discount, fitness and office channels



Fastest to 4,000 kiosks deployed in industry

Over 30,000 sites combined with all host partners

Recent wins include Speedway/SuperAmerica, 7-11, RaceTrac, Wawa

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Future Stores *with Automated Retail*

Automated Retail Leverages Supply Chain

Distribution Model Maximizes Product Lifecycle

> Rental product is stocked balanced from the store to the automated retail location to increase productivity, turns and velocity

> Non-productive product is removed from automated retail location and sold at originating store

Holistic Access for Customers Drives Loyalty

> Automated retail and stores inventory linked to

provide visibility into closest location with in-stock product

> Loyalty program links the shopping experience to drive repeat visits and touch points for customers

Operational Efficiencies Minimize Costs

> Local store employees rotate stock, maintain automated retail and service customer needs

> Stores can maintain supplies to automated retail-ready rentals without additional shipping or time delays

Stores provide product distribution and local operations to automated retail based on a hub-and-spoke modeling leveraging resources to minimize costs

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Digital Opportunities

Blockbuster OnDemand

Mission: Be the source for first-run digital entertainment at home and on the go

Expand into the digital home

through CE and cable

partnerships

Selectively enter the mobile

space

Roll-out Get It

user experience

to unlock physical capabilities

Develop compelling a-la-carte  
and subscription offers

Reinforce our brand and  
consumer franchise through  
"cinematic" propositions

1

2

3

4

5

Strategic Direction

20

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Digital product development is strong

Launched

Products

Product

Pipeline

21

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Blockbuster OnDemand

Multi-Screen Availability

Blockbuster can leverage brand across channels  
to deliver content anyway, anywhere

Utilize customer database

Realize supply chain efficiencies

Deliver superior customer experience

Blockbuster's multi-channel integration will enable the company to deliver one customer view

through  
multiple  
channels  
and  
universal  
Get  
It  
functionality



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Blockbuster's Mission

Blockbuster's mission is to become the preferred choice for convenient access to media entertainment, anytime, anywhere. Stores play an important role in this mission.

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Stores

By-Mail

Kiosks

Online

Living Room

Mobile

**Points Addressing Greg Meyer RiskMetrics Proposal**

1) Destruction of shareholder value

The destruction of value cannot be attributed to Mr. Fernandes during his tenure on the Board. Blockbuster has had a very strong Board during this time horizon, including well-known shareholder activist Carl Icahn, and a significant amount of the value loss can be attributed to the Company's debt obligations, much of which was placed on Blockbuster in connection with its spin-off from Viacom Inc. In addition the rumors of bankruptcy begun in March 2009 and continuing today have dramatically depressed the Company's stock price and the stock has never recovered.

The Hemscoff Index, Blockbuster's barometer for share performance, does not include Movie Gallery, which recently announced plans to liquidate. Including the performance of their shares in this index would likely reflect a similar trend to Blockbuster's. The secular shifts in the home entertainment business are severe and rapidly evolving, and Blockbuster has been equally impacted by these changes.

2) 2009 earnings guidance

Although the Company twice lowered earnings projections for 2009, the Company has publicly explained the factors that contributed to shortfalls (advertising and inventory investment on the 28-day window that competition was able to circumvent).

The current management team does not have a history of underperforming guidance. In 2008, earnings were at the top end of the guidance range.

3) Execution of strategy

Meyer's measure of Blockbuster's business, subscribers, is a mistaken metric. When the Company had its peak number of subscribers, we lost over \$150 million in EBITDA from those operations. Despite the current reduced subscriber count, we project to make over \$50 million. This swing in profitability reflects efforts over the last 2.5 years to improve the operations of the business and creation of a solid financial base. We have active plans to grow the subscriber base meaningfully in the near term, including a number of unannounced partnerships.

If Meyer wants to grow subscribers at all costs, then he is the wrong candidate to represent the shareholders.

We have partnered with NCR to enter the automated retail (aka vending) business. NCR brings a strong balance sheet to invest in a capital-intensive start-up business, and has had very positive traction with retailers nationally.

Blockbuster has actively won accounts from its primary competition, Redbox, and expects to continue to win more accounts in the future.

Blockbuster Express is the fastest-growing kiosk business ever, reaching over 4000 kiosks in under 18 months.

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Meyer's own company never exceeded 1000 units. In fact, we have heard rumors that Coinstar is looking to jettison Meyer's former business, which does not seem to be a ringing endorsement of his abilities and strategies.

Our strategy is not a bricks-and-mortar strategy, as Meyer calls it, but rather a multi-channel strategy that seeks to address consumer needs across various use occasions and availability.

4) Home entertainment experience

As a director at the largest home entertainment company in the world over the last 5 years, Mr. Fernandes has significant home entertainment experience.

If Meyer was such an expert in the home entertainment industry, why is he no longer employed by Coinstar? Why have no other companies used his consulting services?

5) Age of Board Members

According to their proxy filings, these are the breakdowns of comparable company boards, including companies that are well-regarded for being forward thinking (Apple, Google)

Apple 7 directors (0 under 50, avg age of 62)

Google 9 directors (3 under 50, avg age of 52)

Netflix 7 directors (3 under 50, avg age of 51)

Coinstar 7 directors (2 under 50, avg age of 54)

Gamestop 11 directors (0 under 50, avg age of 64)

Wal-mart 16 directors (2 under 50, avg age of 59)

Blockbuster 7 directors (0 under 50, avg age of 62)

###

**Company Statement**

Stockholders are urged to read Blockbuster's definitive proxy statement because it contains important information regarding Blockbuster's annual meeting of stockholders to be held on June 24, 2010. Stockholders and other interested parties may obtain, free of charge, copies of the proxy statement, and any other documents filed by Blockbuster with the SEC, at the SEC's Internet website at <http://www.sec.gov/>. The proxy statement and these other documents may also be obtained free of charge by contacting Morrow & Co., Inc., the firm assisting Blockbuster in the solicitation of proxies, toll-free at 1-800-607-0088.

Blockbuster and certain of its directors and executive officers may, under the rules of the SEC, be deemed to be participants in the solicitation of proxies from Blockbuster's stockholders in respect of the 2010 annual meeting of stockholders. Information regarding the interests of such persons, including such persons' beneficial ownership of Blockbuster common stock is set forth in Blockbuster's definitive proxy statement, filed with the SEC on May 21, 2010, with respect to the 2010 annual meeting of stockholders.