

BLOCKBUSTER INC
Form 10-Q
November 09, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

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)

1201 Elm Street
Dallas, Texas 75270

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

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Telephone 214-854-3000

(Address, including zip code, and telephone number,

including area code, of registrant's principal executive offices)

Not Applicable

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Number of shares of common stock outstanding at November 6, 2006:

Class A common stock, par value \$.01 per share: 118,573,906

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues:				
Base rental revenues	\$ 811.4	\$ 857.1	\$ 2,520.1	\$ 2,634.8
Previously rented product (PRP) revenues	168.0	157.8	471.4	443.3
Extended viewing fee (EVF) revenues	18.2	18.8	55.4	67.7
Total rental revenues	997.6	1,033.7	3,046.9	3,145.8
Merchandise sales	315.8	316.8	967.7	1,077.2
Other revenues	15.9	19.0	45.8	54.4
	1,329.3	1,369.5	4,060.4	4,277.4
Cost of sales:				
Cost of rental revenues	349.6	344.8	1,058.8	1,041.6
Cost of merchandise sold	229.9	241.1	717.0	834.2
	579.5	585.9	1,775.8	1,875.8
Gross profit	749.8	783.6	2,284.6	2,401.6
Operating expenses:				
General and administrative	662.4	671.3	1,990.0	2,112.2
Advertising	33.1	51.9	106.8	225.5
Depreciation and intangible amortization	52.4	56.7	158.8	172.2
Impairment of goodwill and other long-lived assets		336.1		345.1
	747.9	1,116.0	2,255.6	2,855.0
Operating income (loss)	1.9	(332.4)	29.0	(453.4)
Interest expense	(24.3)	(27.2)	(77.2)	(70.0)
Interest income	1.6	0.8	7.3	2.7
Other items, net	0.7	0.3	2.5	(2.8)
Loss before income taxes	(20.1)	(358.5)	(38.4)	(523.5)
Benefit (provision) for income taxes	(4.2)	(110.7)	86.7	(54.6)
Income (loss) from continuing operations	(24.3)	(469.2)	48.3	(578.1)

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Loss from discontinued operations, net of tax (Note 5)	(0.4)	(22.2)	(6.5)	(28.0)
Net income (loss)	(24.7)	(491.4)	41.8	(606.1)
Preferred stock dividends	(2.8)		(8.4)	
Net income (loss) applicable to common stockholders	\$ (27.5)	\$ (491.4)	\$ 33.4	\$ (606.1)
Net income (loss) per common share:				
Basic and diluted				
Continuing operations	\$ (0.15)	\$ (2.55)	\$ 0.21	\$ (3.15)
Discontinued operations	(0.00)	(0.12)	(0.03)	(0.15)
Net income (loss)	\$ (0.15)	\$ (2.67)	\$ 0.18	\$ (3.30)
Weighted-average common shares outstanding:				
Basic and diluted				
	187.2	183.8	186.9	183.8
Cash dividends per common share	\$	\$	\$	\$ 0.04

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

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

	September 30,	December 31,
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 254.8	\$ 276.2
Receivables, less allowances of \$6.0 and \$6.4 for 2006 and 2005, respectively	97.0	127.8
Merchandise inventories	295.3	310.3
Rental library, net	416.0	475.5
Deferred income taxes	15.6	15.6
Prepaid and other current assets	169.5	218.4
Total current assets	1,248.2	1,423.8
Property and equipment, net	610.8	723.5
Deferred income taxes	110.0	159.6
Intangibles, net	27.3	26.9
Goodwill	809.2	809.2
Other assets	27.1	36.6
	\$ 2,832.6	\$ 3,179.6
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 308.8	\$ 368.1
Accrued expenses	609.5	765.3
Current portion of long-term debt	20.5	20.5
Current portion of capital lease obligations	12.6	15.9
Deferred income taxes	98.5	148.1
Total current liabilities	1,049.9	1,317.9
Long-term debt, less current portion	909.0	1,059.4
Capital lease obligations, less current portion	52.7	62.2
Other liabilities	118.4	108.5
	2,130.0	2,548.0
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 100.0 shares authorized; 0.15 shares issued and outstanding for 2006 and 2005 with a liquidation preference of \$1,000 per share	150.0	150.0
Class A common stock, par value \$0.01 per share; 400.0 shares authorized; 115.2 and 114.6 shares issued and outstanding for 2006 and 2005, respectively	1.2	1.1
Class B common stock, par value \$0.01 per share; 500.0 shares authorized; 72.0 shares issued and outstanding for 2006 and 2005	0.7	0.7
Additional paid-in capital	5,369.4	5,360.9

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Retained deficit	(4,794.6)	(4,836.4)
Accumulated other comprehensive loss	(24.1)	(44.7)
Total stockholders' equity	702.6	631.6
	\$ 2,832.6	\$ 3,179.6

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

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

	Nine Months Ended	
	September 30,	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	\$ 41.8	\$ (606.1)
Adjustments to reconcile net income (loss) to net cash flow provided by (used for) operating activities:		
Depreciation and intangible amortization	158.8	174.8
Impairment of goodwill and other long-lived assets		356.8
Rental library purchases	(452.2)	(638.5)
Rental library amortization	526.5	668.3
Non-cash share-based compensation	18.4	29.2
Gain on sale of store real estate	(6.4)	
Deferred taxes and other	6.7	48.5
Change in operating assets and liabilities:		
Decrease in receivables	30.8	65.6
Decrease in merchandise inventories	22.4	154.5
(Increase) decrease in prepaid and other assets	52.6	(41.6)
Decrease in accounts payable	(68.0)	(244.9)
Decrease in accrued expenses and other liabilities	(161.9)	