

## Corporate Finance Project II: The Death of Blockbuster

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This movie-rental chain failed to notice the future happening all around it. While Blockbuster was doubling down on retail stores and charging its customers loathsome late fees, Netflix wooed millions of movie fans by mailing them DVDs and offering streaming video over the Web, and Redbox set up convenient kiosks offering overnight movies for a buck. No wonder Blockbuster declared bankruptcy in September 2010.



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**ASSIGNMENT:** Read the article about Blockbuster and review their historical financial information. Then, write a summary of their financial situation using everything that we learned in CFIN 4, 5, and 6. You will probably want to discuss the **TRENDS** you notice in the financials (from one year to the next) as well as the **RATIOS** (choose at least FIVE appropriate ratios to use in your analysis). Make sure to reference information from the article in your response (use specific examples). Your summary should be 250 words in length and should be TYPED in Word. Please email to me.

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### Debt, Changing Media Habits Topple Blockbuster

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Blockbuster Inc., once the dominant movie rental company in the U.S., filed for Chapter 11 bankruptcy protection on September 23, 2010, reeling from mounting losses, rising debt and competitors that have better catered to Americans' changed media habits.

Blockbuster closed all of its 3,300 U.S. stores. The Dallas-based company had about 25,500 employees, including 7,500 full-time workers.

The bankruptcy marks the end of an era that Blockbuster and its gold-and-blue torn ticket logo helped establish. Americans used to troop to video stores on Friday for the latest movies. Now, they're skipping Blockbuster and watching movies from DVD-by-mail services like Netflix Inc., cable video on demand and Redbox vending machines.

The bankruptcy will wipe out Blockbuster's badly battered stock, which was delisted from the New York Stock Exchange because it was nearly worthless.

Blockbuster, founded in 1985 by a Dallas software entrepreneur, was once a home entertainment powerhouse. It helped popularize videotape recorders and took off in 1987 after Waste Management Inc. founder Wayne Huizenga took control and began aggressively expanding and buying up competitors.

But Blockbuster had been losing money and market share for years as Netflix, Coinstar Inc.'s

Redbox and other services gained popularity. Netflix subscribers have grown dramatically. Redbox, meanwhile, operates 26,900 kiosks.

In response to competition from Netflix and others, Blockbuster ended late fees and started online services of its own. NCR Corp. started putting out Blockbuster-branded kiosks, but it was unable to keep its debt in check.

Hollywood Video parent Movie Gallery Inc., once the second-largest U.S. movie rental chain behind Blockbuster, had similar problems. It filed for bankruptcy protection in February 2010 before liquidating in August 2010.

Movie rentals aren't the only retail segment that has been disrupted by changing ways to consume media. Amazon.com has challenged traditional booksellers like Borders Inc. and Barnes & Noble Inc. and iTunes helped lead to the end of many record and CD stores.



## Blockbuster Inc.

### Income Statement (amounts in millions)

Period Ending	January 3, 2010	January 4, 2009	January 6, 2008
<b>Total Revenue</b>	<b>4,062.4</b>	<b>5,065.4</b>	<b>5,314.0</b>
Cost of Revenue	1,884.2	2,435.1	2,540.3
<b>Gross Profit</b>	<b>2,178.2</b>	<b>2,630.3</b>	<b>2,773.7</b>
Operating Expenses:			
General and Administrative	1,928.7	2,235.3	2,454.9
Advertising	91.4	117.7	190.5
Depreciation and Amortization	144.1	146.6	180.3
Other Operating Expenses	369.2	435.0	(79.3)
<b>Total Operating Expenses</b>	<b>2,533.4</b>	<b>2,934.6</b>	<b>2,746.4</b>
<b>Operating Income (or Loss)</b>	<b>(355.2)</b>	<b>(304.3)</b>	<b>27.3</b>
Interest Expense	111.6	72.9	27.3
Other Expenses	39.0	18.7	5.1
<b>Income (Loss) Before Taxes</b>	<b>(505.8)</b>	<b>(358.5)</b>	<b>(55.8)</b>
Income Taxes	11.8	24.4	28.4
<b>Net Income (Loss)</b>	<b>(517.6)</b>	<b>(374.1)</b>	<b>(73.8)</b>
Shares Outstanding	194.1	191.8	190.3

## Blockbuster Inc.

### Balance Sheet (amounts in millions)

Period Ending	January 3, 2010	January 4, 2009	January 6, 2008
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	188.7	154.9	184.6
Accounts Receivable	79.4	117.1	113.1
Inventory	639.2	788.6	785.0
Other Current Assets	152.7	198.0	236.5
<b>Total Current Assets</b>	<b>1,060.0</b>	<b>1,258.6</b>	<b>1,319.2</b>
Property, Plant and Equipment	249.4	406.0	463.0
Other Long-Term Assets	228.9	489.9	951.4
<b>Total Assets</b>	<b>1,538.3</b>	<b>2,154.5</b>	<b>2,733.6</b>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	300.8	427.3	472.8
Short-Term Debt	107.7	206.5	54.8
Other Current Liabilities	526.3	619.6	760.9
<b>Total Current Liabilities</b>	<b>934.8</b>	<b>1,253.4</b>	<b>1,288.5</b>
Long-Term Debt	855.9	611.3	703.0
Other Liabilities	61.9	75.5	86.4
<b>Total Liabilities</b>	<b>1,852.6</b>	<b>1,940.2</b>	<b>2,077.9</b>
<b>STOCKHOLDERS' EQUITY</b>			
Preferred Stock	145.9	150.0	150.0
Common Stock	5,379.0	5380.3	5,377.1
Retained Earnings (Loss)	(5,839.2)	(5,316.0)	(4,871.4)
<b>Total Stockholders' Equity</b>	<b>(314.3)</b>	<b>214.3</b>	<b>655.7</b>