

BLOCKBUSTER INC
Form 10-Q
May 14, 2002
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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 March 31, 2002

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 No.)

1201 Elm Street
Dallas, Texas 75270
Telephone (214) 854-3000
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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

Number of shares of common stock outstanding at May 1, 2002:

Class A common stock, par value \$.01 per share: 34,322,903
Class B common stock, par value \$.01 per share: 144,000,000

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BLOCKBUSTER INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions, except per share amounts)

	Three Months Ended March 31,	
	2001	2002
Revenues:		
Rental revenues	\$ 1,117.9	\$ 1,110.1
Merchandise sales	169.5	193.7
Other revenues	20.5	22.2
	<u>1,307.9</u>	<u>1,326.0</u>
Cost of sales:		
Cost of rental revenues	393.5	374.3
Cost of merchandise sold	135.2	153.2
	<u>528.7</u>	<u>527.5</u>
Gross profit	<u>779.2</u>	<u>798.5</u>
Operating expenses:		
Selling, general and administrative	618.7	623.2
Depreciation	62.5	55.5
Amortization of intangibles	44.2	0.4
	<u>725.4</u>	<u>679.1</u>
Operating income	53.8	119.4
Interest expense	(24.4)	(12.6)
Interest income	1.8	1.1
Other items, net	(1.6)	(1.7)
	<u>29.6</u>	<u>106.2</u>
Income before income taxes	29.6	106.2
Provision for income taxes	(25.3)	(40.4)
Equity in income of affiliated companies, net of tax	0.4	0.2
	<u>4.7</u>	<u>66.0</u>
Income before cumulative effect of change in accounting principle	4.7	66.0
Cumulative effect of change in accounting principle, net of tax		(1,817.0)
	<u>4.7</u>	<u>(1,751.0)</u>
Net income (loss)	\$ 4.7	\$ (1,751.0)

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Income per share before cumulative effect of change in accounting principle:

Basic and diluted	\$ 0.03	\$ 0.37
	<u> </u>	<u> </u>

Cumulative effect of change in accounting principle per share:

Basic	\$	(10.25)
	<u> </u>	<u> </u>

Diluted	\$	(10.08)
	<u> </u>	<u> </u>

Net income (loss) per share:

Basic	\$ 0.03	\$ (9.88)
	<u> </u>	<u> </u>

Diluted	\$ 0.03	\$ (9.72)
	<u> </u>	<u> </u>

Weighted-average shares outstanding:

Basic	175.0	177.3
	<u> </u>	<u> </u>

Diluted	175.4	180.2
	<u> </u>	<u> </u>

Cash dividends per common share	\$ 0.02	\$ 0.02
	<u> </u>	<u> </u>

See notes to unaudited consolidated financial statements.

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BLOCKBUSTER INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	December 31, 2001	March 31, 2002
		(Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 200.2	\$ 221.6
Receivables, less allowances of \$8.6 and \$8.7 for 2001 and 2002, respectively	150.0	147.2
Merchandise inventories	202.9	231.5
Prepaid assets and other current assets	163.3	144.9
	<u>716.4</u>	<u>745.2</u>
Total current assets	716.4	745.2
Rental library	343.3	317.0
Receivable from Viacom	94.5	66.0
Property and equipment, net	909.0	861.9
Intangibles	10.1	9.7
Goodwill	5,614.1	3,794.6
Other assets	65.0	64.7
	<u>7,752.4</u>	<u>5,859.1</u>
	\$ 7,752.4	\$ 5,859.1
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 530.5	\$ 484.7
Accrued expenses	550.4	439.8
Current portion of long-term debt	157.8	208.6
Current portion of capital lease obligations	23.6	24.0
Deferred taxes	6.5	6.5
	<u>1,268.8</u>	<u>1,163.6</u>
Total current liabilities	1,268.8	1,163.6
Long-term debt, less current portion	458.4	405.7
Capital lease obligations, less current portion	88.0	84.9
Deferred taxes	111.5	117.3
Other liabilities	77.0	79.0
	<u>2,003.7</u>	<u>1,850.5</u>
	2,003.7	1,850.5
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock, par value \$.01 per share; 100.0 shares authorized; no shares issued or outstanding		
Class A common stock, par value \$.01 per share; 400.0 shares authorized; 34.0 shares issued and outstanding	0.3	0.3
Class B common stock, par value \$.01 per share; 500.0 shares authorized; 144.0 shares issued and outstanding	1.4	1.4
Additional paid-in capital	6,181.1	6,198.2
Retained deficit	(327.1)	(2,078.1)
Accumulated comprehensive loss	(107.0)	(113.2)
	<u>6,858.7</u>	<u>6,858.7</u>

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Total stockholders' equity	5,748.7	4,008.6
	<u> </u>	<u> </u>
	\$ 7,752.4	\$ 5,859.1
	<u> </u>	<u> </u>

See notes to unaudited consolidated financial statements.

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BLOCKBUSTER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Three Months Ended March 31,	
	2001	2002
Cash flows from operating activities:		
Net income (loss)	\$ 4.7	\$ (1,751.0)
Adjustments to reconcile net income (loss) to net cash flow provided by operating activities:		
Depreciation and amortization	106.7	55.9
Rental amortization	230.0	230.1
Cumulative effect of change in accounting principle		1,817.0
Non-cash write-down of investment		1.3
Deferred taxes	(5.5)	4.0
Equity in income of affiliated companies, net of tax	(0.4)	(0.2)
Common stock issued to non-employee directors	0.1	
Gain on sales of store operations	(0.2)	
Change in operating assets and liabilities:		
Decrease in receivables	42.1	2.3
Decrease in receivable from Viacom	30.6	28.5
(Increase) decrease in merchandise inventories	32.7	(29.3)
Decrease in prepaid and other assets	14.1	8.1
Decrease in accounts payable	(188.9)	(43.2)
Decrease in accrued expenses and other liabilities	(78.5)	(101.9)
	<u>187.5</u>	<u>221.6</u>
Net cash flow provided by operating activities	187.5	221.6
Cash flows from investing activities:		
Rental library purchases	(201.1)	(196.5)
Capital expenditures	(11.5)	(13.9)
Proceeds from sales of store operations	0.5	
Proceeds from notes receivable		1.1
Investments in affiliated companies	(2.5)	0.6
	<u>(214.6)</u>	<u>(208.7)</u>
Net cash flow used in investing activities	(214.6)	(208.7)
Cash flows from financing activities:		
Proceeds from credit agreement	55.0	
Repayments on credit agreement	(70.0)	
Repayments on other notes	(3.1)	(1.9)
Net proceeds from the exercise of stock options		