

BLOCKBUSTER INC
Form PRE 14A
June 22, 2004
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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
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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Blockbuster Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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July [], 2004

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Blockbuster Inc. to be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time.

The attached Notice of Annual Meeting and Proxy Statement describes the formal business to be transacted at the meeting. Directors and officers of Blockbuster will be present to help host the meeting and to respond to any questions that our stockholders may have. I hope you will be able to attend.

Blockbuster's Board of Directors believes that a favorable vote on each of the matters to be considered at the meeting is in the best interests of Blockbuster and its stockholders and unanimously recommends a vote FOR each such matter. Accordingly, we urge you to review the accompanying material carefully and to return the enclosed proxy card promptly.

Please complete, sign, date and return the enclosed proxy card without delay. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

I look forward to seeing you at the meeting.

Sincerely,
John F. Antioco
Chairman of the Board and

Chief Executive Officer

Blockbuster Inc. Renaissance Tower 1201 Elm Street Dallas, TX 75270-2102 Phone: (214) 854-3000

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BLOCKBUSTER INC.

1201 Elm Street

Dallas, Texas 75270

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JULY 20, 2004

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Blockbuster Inc., a Delaware corporation, will be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time, for the following purposes:

- (1) The election of three Class II directors;
- (2) The adoption of the Second Amended and Restated Certificate of Incorporation of Blockbuster Inc.;
- (3) The approval of the Blockbuster Inc. Amended and Restated 1999 Long-Term Management Incentive Plan;
- (4) The approval of the Blockbuster Inc. 2004 Long-Term Management Incentive Plan;
- (5) The approval of the Blockbuster Inc. Amended and Restated Senior Executive Short-Term Incentive Plan;
- (6) The approval of the Blockbuster Inc. Compensation Plan for Non-Employee Directors (the Non-Employee Director Compensation Plan);
- (7) The approval of the Blockbuster Inc. Amended and Restated Chairman s Award Plan;
- (8) The ratification of the appointment of PricewaterhouseCoopers LLP as Blockbuster s independent auditors for fiscal 2004; and
- (9) The transaction of such other business as may properly come before the meeting or any adjournment thereof.

The close of business on June 15, 2004 has been fixed as the record date for determining stockholders entitled to notice of and to vote at the meeting or any adjournment thereof. For a period of at least ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be open to the examination of any stockholder during ordinary business hours at Blockbuster s corporate headquarters located at 1201 Elm Street, Dallas, Texas 75270.

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WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN PROMPTLY THE ENCLOSED PROXY CARD IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. PROXIES FORWARDED BY OR FOR BROKERS OR FIDUCIARIES SHOULD BE RETURNED AS REQUESTED BY THEM.

By Order of the Board of Directors,
Marilyn R. Post
Vice President and Secretary

Dallas, Texas

July [], 2004

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BLOCKBUSTER INC.

1201 Elm Street

Dallas, Texas 75270

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

To Be Held July 20, 2004

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Blockbuster Inc. for use at the Annual Meeting of Stockholders of the Company to be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time, or at such other time and place to which the meeting may be adjourned. The approximate date on which this Proxy Statement and accompanying proxy are first being sent or given to stockholders is July [], 2004. Blockbuster Inc. will be referred to as Blockbuster or the Company in this Proxy Statement.

All shares represented by valid proxies, unless the stockholder specifies otherwise, will be voted as follows:

FOR the election of the three persons named under Proposal I Election of Directors as nominees for election as Class II directors;

FOR the proposal to adopt the Second Amended and Restated Certificate of Incorporation of Blockbuster Inc.;

FOR the proposal to approve the Blockbuster Inc. Amended and Restated 1999 Long-Term Management Incentive Plan (Amended and Restated LTMIP);

FOR the proposal to approve the Blockbuster Inc. 2004 Long-Term Management Incentive Plan (the 2004 LTMIP);

FOR the proposal to approve the Blockbuster Inc. Amended and Restated Senior Executive Short-Term Incentive Plan (the Amended and Restated Senior Executive STIP);

FOR the proposal to approve the Blockbuster Inc. Compensation Plan for Non-Employee Directors (the Non-Employee Director Compensation Plan);

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FOR the proposal to approve the Blockbuster Inc. Amended and Restated Chairman's Award Plan; and

FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal 2004.

The Board of Directors knows of no other business to be presented at the meeting. If any other business is properly presented, the persons named in the enclosed proxy have authority to vote on such matters in accordance with such persons' discretion. Where a stockholder has appropriately specified how a proxy is to be voted, it will be voted accordingly.

A stockholder executing a proxy retains the right to revoke it at any time prior to exercise at the meeting. A proxy may be revoked by delivery of written notice of revocation to the Secretary of the Company, by execution and delivery of a later proxy, or by voting the shares in person at the meeting.

VOTING SECURITIES AND RECORD DATE

The Company has two classes of common stock outstanding: Class A Common Stock, which is entitled to one vote per share; and Class B Common Stock, which is entitled to five votes per share. Except as discussed below under "Quorum and Voting Required Vote Proposal II" with respect to the proposal to adopt the

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Second Amended and Restated Certificate of Incorporation of Blockbuster Inc., the holders of Class A Common Stock and Class B Common Stock vote together as a single class on the matters to be considered at the meeting, and their votes are counted and totaled together. The record date for determining the stockholders entitled to notice of and to vote at the meeting and any adjournment thereof was the close of business on June 15, 2004, at which time the Company had issued and outstanding 37,097,626 shares of Class A Common Stock and 144,000,000 shares of Class B Common Stock.

As of the record date, Viacom Inc. beneficially owned 3,600,352 shares of the Company's Class A Common Stock and all of the outstanding shares of the Company's Class B Common Stock, which constitutes approximately 95.6% of the combined voting power of the Company. As a result, Viacom is able, acting alone, to approve the proposals submitted for approval at the meeting. Viacom has agreed that it will vote in favor of each of the proposals listed above.

Viacom's Board of Directors has authorized the divestiture of its approximately 81.5% equity interest in the Company. In connection with the divestiture, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission on June 18, 2004. As a result of the divestiture, Blockbuster will be an independent entity.

QUORUM AND VOTING

The presence at the meeting, in person or by proxy, of the stockholders of record entitled to cast at least a majority of the votes that all stockholders are entitled to cast is necessary to constitute a quorum. Each vote represented at the meeting in person or by proxy will be counted toward a quorum. If a quorum should not be present, the meeting may be adjourned from time to time until a quorum is obtained.

Broker Voting

Brokers holding shares of record for a customer have the discretionary authority to vote on some matters if they do not receive timely instructions from the customer regarding how the customer wants the shares voted. There are also some matters with respect to which brokers do not have discretionary authority to vote if they do not receive timely instructions from the customer. When a broker does not have discretion to vote on a particular matter and the customer has not given timely instructions on how the broker should vote, what is referred to as a broker non-vote results. Any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, but would be treated as not entitled to vote with respect to that matter. Therefore, a broker non-vote would not count as a vote in favor of or against a particular matter and, accordingly, would not affect the outcome of the vote. Brokers will have discretionary authority to vote on Proposals I and VIII in the absence of timely instructions from their customers. Brokers will not have discretionary authority to vote on Proposals II through VII.

Required Vote

Proposal I

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To be elected, each nominee for election as a Class II director must receive the affirmative vote of a plurality of the votes of the shares of Common Stock present or represented at the meeting and entitled to vote on such proposal. Votes may be cast in favor of or withheld with respect to each nominee. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for such proposal and, therefore, will not affect the outcome of the vote on such proposal.

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Proposal II

Approval of the amendments to the Company's Amended and Restated Certificate of Incorporation, as proposed to be effected by the adoption of the Second Amended and Restated Certificate of Incorporation of the Company, requires the affirmative vote of not less than 75% of the combined voting power of the shares of Class A Common Stock and Class B Common Stock outstanding and entitled to vote thereon and the vote of the holders of a majority in voting power of the shares of Blockbuster's Class B Common Stock outstanding as of the Record Date, voting as a separate class. Abstentions may be specified on Proposal II and will have the same effect as a vote against such proposal.

Proposals III through VIII

Each of the proposals to (i) approve the Amended and Restated LTMIP, (ii) approve the 2004 LTMIP, (iii) approve the Amended and Restated Senior Executive STIP, (iv) approve the Non-Employee Director Compensation Plan, (v) approve the Amended and Restated Chairman's Award Plan and (vi) ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal 2004 requires the affirmative vote of the holders of a majority of the votes of the Common Stock present or represented at the meeting and entitled to vote on such proposals. The rules of the New York Stock Exchange further require that at least a majority of the votes of shares of Common Stock entitled to vote must be cast with respect to the proposal to approve the 2004 LTMIP, and approval of such proposal requires the affirmative vote of the holders of a majority of the votes so cast. Abstentions may be specified on each of proposals III through VIII and will have the same effect as a vote against such proposals.

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PROPOSAL I

ELECTION OF DIRECTORS

The Company's Amended and Restated Certificate of Incorporation provides for a Board of Directors divided into three classes, as nearly equal in number as possible, with the term of office of one class expiring each year at the Company's Annual Meeting of Stockholders. Each class of directors is elected for a term of three years, except in the case of elections to fill vacancies or newly created directorships.

Based on the recommendation of the Nominating Committee, the Board of Directors has proposed three nominees for election as Class II directors to be elected for terms expiring at the Company's Annual Meeting of Stockholders in 2007 or until their successors have been elected and qualified. All duly submitted and unrevoked proxies will be voted for the nominees set forth below, except where authorization to so vote is withheld. If, for any reason, any of the nominees becomes unavailable for election, the holders of the proxies may exercise discretion to vote for substitutes proposed by the Board of Directors. Each of the nominees has indicated his willingness to serve as a member of the Board of Directors if elected. Proxies cannot be voted for more than three nominees.

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

Information concerning the three nominees proposed by the Board of Directors for election as Class II directors, along with information concerning the present Class III and Class I directors whose terms of office will continue after the meeting, is set forth below.

The nominees for election as Class II directors are as follows:

Class II Nominees Terms Expiring in 2007

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Michael D. Fricklas	44	Director
John L. Muething	82	Director
Sumner M. Redstone	81	Director

The present directors whose terms are scheduled to expire after 2004 are as follows:

Class III Directors Terms Expiring in 2005

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
John F. Antioco	54	Chairman of the Board and Chief Executive Officer
Linda Griego	56	Director

Class I Directors Terms Expiring in 2006

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Richard J. Bressler	46	Director
Jackie M. Clegg	42	Director
Philippe P. Dauman	50	Director

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Set forth below is a description of the background of each of the directors of the Company.

John F. Antioco has served as the Company's Chairman of the Board of Directors and Chief Executive Officer since 1997 and served as its President from 1997 until 2001. From 1996 until 1997, Mr. Antioco served as President and Chief Executive Officer for Taco Bell Corporation. Mr. Antioco serves as Chairman of the Board of Directors of Main Street and Main Incorporated and is a member of the Board of Governors of the Boys & Girls Clubs of America.

Richard J. Bressler was elected as a director of the Company in May 2001. Mr. Bressler has served as Senior Executive Vice President and Chief Financial Officer of Viacom Inc. since 2001. Prior to joining Viacom Inc., Mr. Bressler served as Executive Vice President of AOL Time Warner Inc. and Chief Executive Officer of AOL Time Warner Investments. Prior to that, Mr. Bressler served in various capacities with Time Warner Inc., including Chairman and Chief Executive Officer of Time Warner Digital Media. He also served as Executive Vice President and Chief Financial Officer of Time Warner Inc. from 1995 until 1999. Mr. Bressler serves on the National Advisory Committee of JPMorgan Chase.

Jackie M. Clegg was appointed as a director of the Company in July 2003. In September 2001, she formed the international strategic consulting firm Clegg International Consultants, LLC specializing in emerging markets. In July 2001, Ms. Clegg stepped down as Vice Chairman and First Vice President of the Export-Import Bank of the United States, after serving in that role since June 1997. She also served as its Chief Operating Officer from January 1999 through fiscal year 2000. Ms. Clegg serves on the Board of Directors of the Chicago Board of Trade.

Philippe P. Dauman was elected as a director of the Company in January 1995. Mr. Dauman has served as a director of Viacom Inc. since 1987 and has been Co-Chairman and Chief Executive Officer of DND Capital Partners, L.L.C., a private equity firm, since 2000. Mr. Dauman served as Deputy Chairman of Viacom Inc. from 1996 until 2000 and as its Executive Vice President from 1994 until 2000. From 1993 until 1998, Mr. Dauman also served as General Counsel and Secretary of Viacom Inc. Mr. Dauman is a director of Lafarge North America Inc. and National Amusements, Inc.

Michael D. Fricklas was appointed as a director of the Company in June 2004. Mr. Fricklas has served as Executive Vice President, General Counsel and Secretary of Viacom Inc. since May 2000. From October 1998 to May 2000, he served as Senior Vice President, General Counsel and Secretary of Viacom Inc. and from July 1993 to October 1998, he served as Vice President, Deputy General Counsel of Viacom Inc.

Linda Griego was elected as a director of the Company in July 1999. Ms. Griego has served as President of Zapgo Entertainment Group, LLC, a television programming production company, since 1997 and is the Managing General Partner of Engine Co. No. 28, a restaurant that she founded in 1988. From July 1999 until January 2000, Ms. Griego served as the interim President and Chief Executive Officer of the Los Angeles Community Development Bank, a \$430 million federally funded community bank. From 1994 until 1997, Ms. Griego served as President and Chief Executive Officer of Rebuild LA, Inc., an economic development corporation. Ms. Griego is a director of Granite Construction Incorporated and Southwest Water Company and also serves as a Los Angeles director of the Federal Reserve Bank of San Francisco.

John L. Muething was elected as a director of the Company in July 1999. Mr. Muething has been Of Counsel to the Cincinnati, Ohio law firm of Keating, Muething & Klekamp since 1986. He also served as a director of Spelling Entertainment Group Inc. from 1992 until 1999.

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Sumner M. Redstone was elected as a director of the Company in May 1999. Mr. Redstone has been a director of Viacom Inc. since 1986 and Chairman of the Board of Viacom Inc. since 1987 and acquired the title of Chief Executive Officer of Viacom Inc. in 1996. Mr. Redstone has served as Chairman of the Board of National Amusements, Inc. since 1986 and as its Chief Executive Officer since 1967. He also served as President

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of National Amusements, Inc. from 1967 through 1999. Mr. Redstone is a member of the Advisory Council for the Academy of Television Arts and Sciences Foundation and is on the Board of Trustees for The Museum of Television and Radio. Mr. Redstone served as the first Chairman of the Board of the National Association of Theatre Owners and is currently a member of its Executive Committee. Since 1982, Mr. Redstone has been a member of the faculty of Boston University Law School, where he has lectured on entertainment law, and since 1994, he has been a Visiting Professor at Brandeis University. He has also been a frequent lecturer at colleges, including Harvard Law School. Mr. Redstone graduated from Harvard University in 1944 and received an LL.B. from Harvard University School of Law in 1947. Upon graduation, Mr. Redstone served as Law Secretary with the U.S. Court of Appeals, and then as a Special Assistant to the U.S. Attorney General.

The Board of Directors recommends a vote FOR the election of the nominees for Class II Director named above.

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CORPORATE GOVERNANCE

The business of the Company is managed under the direction of its Board of Directors. The Board of Directors meets on a regularly scheduled basis to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings when an important matter requires Board action between regularly scheduled meetings. The Board of Directors met seven times and acted by unanimous written consent eight times during the 2003 fiscal year. During the 2003 fiscal year, each member of the Board of Directors participated in at least 75% of the aggregate number of Board meetings and applicable committee meetings held during the period for which he or she was a director.

In January 2004, the Board of Directors adopted Corporate Governance Guidelines of the Company. A copy of the Company's Corporate Governance Guidelines is available on the Company's website at <http://investor.blockbuster.com> and is also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas, TX 75270.

Business Conduct Statement and Supplemental Code of Ethics

In January 2004, the Board of Directors adopted a Business Conduct Statement that applies to all of the Company's employees and directors and a Supplemental Code of Ethics that applies specifically to the Company's Chief Executive Officer, Chief Financial Officer and Controller (the Senior Financial Officers). The Business Conduct Statement and the Supplemental Code of Ethics are available on the Company's website at <http://investor.blockbuster.com> and are also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas TX 75270. The Company intends to disclose any amendment to or waiver from the Supplemental Code of Ethics applicable to any Senior Financial Officer on a Form 8-K or on its website at <http://investor.blockbuster.com>.

Independence of Directors

Based on information solicited from each director and upon the advice and recommendation of the Company's Nominating and Corporate Governance Committees, the Board of Directors has determined that three of its eight members, Jackie M. Clegg, Linda Griego and John L. Muething, are independent directors as defined by the applicable rules of both the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that each of these directors is also independent, as defined under the New York Stock Exchange's new corporate governance standards, which are discussed in the next paragraph.

The Securities and Exchange Commission recently approved new corporate governance standards for companies listed on the New York Stock Exchange. These standards will become effective for the Company on July 20, 2004, the date of the Company's 2004 Annual Meeting of Stockholders. These new corporate governance standards require listed companies to, among other things, have (i) a majority of independent directors; (ii) a nominating/corporate governance committee composed entirely of independent directors; and (iii) a compensation committee composed entirely of independent directors. Controlled companies, as defined by such rules, may take advantage of exemptions with respect to any or all of these requirements. The Company's Board of Directors has determined that Blockbuster is a controlled company on the basis that Viacom Inc. beneficially owns more than 50 percent of the voting power in the Company. To comply with the New York Stock Exchange's new corporate governance standards, the Company intends to initially rely on the exemption for controlled companies with respect to the requirements described in (i) and (ii) above. The Company's Senior Executive Compensation Committee is composed entirely of independent directors in accordance with its charter and the new corporate governance standards of the New York Stock Exchange.

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Executive Sessions and the Presiding Director

The Corporate Governance Guidelines of the Company provide for regular executive sessions of the non-management directors without management participation, as well as regular executive sessions where independent directors meet separately. Consistent with the rules of the New York Stock Exchange, a non-management director is a director who is not an officer of the Company within the meaning of Rule 16a-1(f) under the Securities Act of 1933, as amended. An independent director is a director who is independent, as defined by the rules of the New York Stock Exchange. The Corporate Governance Guidelines of the Company designate the Chair of the Audit Committee as the presiding director at such meetings.

Communications with Directors

Stockholders and other interested parties may communicate directly with the Audit Committee and the Board's non-management directors by calling The Network hotline at 1-888-441-WORD. The Chair of the Audit Committee, who is also the presiding director for meetings of non-management directors, has been designated to directly receive such communications. In addition, stockholders may send communications to the Board of Directors by mail, by writing to Board of Directors, Blockbuster Inc., 1201 Elm Street, Dallas, TX 75270. The Executive Vice President and General Counsel of the Company receives all such mailed communications initially and forwards all such communications to the applicable director or directors.

Director Attendance at Annual Meetings

The Company's Corporate Governance Guidelines, as adopted in January 2004, provide that directors are expected to attend the Company's Annual Meeting of Stockholders. At the Company's last meeting, which was held on May 20, 2003, three directors were in attendance.

Committees of the Board of Directors

The Board of Directors has established standing audit, senior executive compensation, compensation, nominating and corporate governance committees to devote attention to specific subjects and to assist it in the discharge of its responsibilities. The functions of each of these committees and their current members, as well as the number of meetings held by these committees during the 2003 fiscal year, are described below. The Board of Directors has adopted written charters for each of these committees, which charters are available on the Company's website at <http://investor.blockbuster.com> and are also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas, TX 75270. In addition to the standing committees, the Board of Directors established a special committee of disinterested directors in November 2003 to assist the Company with a possible change in control transaction involving the Company.

Audit Committee

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to (i) the quality and integrity of the Company's financial reports and other financial information provided by the Company to its stockholders, the public

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and others; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent auditors' qualifications, independence and performance; and (iv) the performance of the Company's internal audit function, including its systems of internal controls. The Audit Committee's duties and responsibilities include:

direct responsibility for the appointment, compensation, retention and oversight of the work of the Company's independent auditors, including the authority to pre-approve all services to be provided by the independent auditors and the related fees;

reviewing the scope and results of the independent auditors' audit of the Company's annual financial statements and the proposed scope and plan of the work to be done by the Company's internal audit group;

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reviewing and discussing with management and the Company's independent auditors the Company's annual audited financial statements and quarterly financial statements;

reviewing and discussing with management, the Company's independent auditors and the Company's internal audit group the adequacy and effectiveness of the Company's system of internal controls; and

reviewing material legal matters and the adequacy and effectiveness of the Company's procedures to ensure compliance with its legal and regulatory responsibilities.

The Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter, as amended in January 2004, is attached to this Proxy Statement as Appendix A.

The Audit Committee consists of three directors. The current members of the Audit Committee are Ms. Griego (Chair), Ms. Clegg, and Mr. Muething. The Board of Directors has determined that each of these directors is independent as defined by the applicable rules of both the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that each of these directors is also independent, as defined under the New York Stock Exchange's new corporate governance standards, as discussed in more detail above under Independence of Directors. The Board of Directors also has determined that each of these directors is financially literate as interpreted by the Board of Directors in its business judgment and that Ms. Clegg further qualifies as an audit committee financial expert, as such term is defined in the applicable rules of the Securities and Exchange Commission.

Mr. Dauman served as an additional member of the Audit Committee during 2003. Although Mr. Dauman served as an executive officer of Viacom Inc. until May 2000, the Board of Directors determined in its business judgment that Mr. Dauman's membership on the Audit Committee was required by the best interests of the Company and its stockholders due to his extensive industry and business expertise. The Board of Directors also determined in its business judgment that Mr. Dauman's former position as an executive officer of Viacom Inc. did not interfere with his exercise of independent judgment. Therefore, Mr. Dauman was appointed a member of the Audit Committee during 2003 pursuant to the override provision contained in the New York Stock Exchange rules effective at such time. In anticipation of the effectiveness of the new corporate governance standards of the New York Stock Exchange relating to independence, Mr. Dauman resigned from the Audit Committee in February 2004. The Audit Committee met fifteen times during the 2003 fiscal year.

The Audit Committee has established pre-approval policies and procedures with respect to audit and non-audit services by the Company's independent auditors, which are described below under Audit Committee and Independent Auditors Pre-Approval Policies and Procedures.

Senior Executive Compensation Committee

The functions of the Senior Executive Compensation Committee include: (i) reviewing and approving the compensation of the Company's executives; (ii) making recommendations to the Board of Directors of the Company with respect to non-CEO compensation, incentive compensation plans and equity-based plans; (iii) reviewing and approving corporate goals and objectives relevant to the compensation of the Company's Chief Executive Officer and evaluating the Chief Executive Officer's performance in light of those goals and objectives; and (iv) approving the compensation level for the Chief Executive Officer. Mr. Muething (Chair), Ms. Clegg and Ms. Griego are members of the Senior Executive Compensation Committee. The Senior Executive Compensation Committee met five times and acted by unanimous written consent three times during the 2003 fiscal year.

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Compensation Committee

Subject to the authority of the Board of Directors, and except with respect to matters entrusted to the Company's Senior Executive Compensation Committee, the functions of the Compensation Committee include: (i) assisting management in defining and overseeing the Company's general compensation practices; (ii) reviewing and approving the forms of employment agreements for employees at the level of vice president and above; (iii) approving the Company's incentive compensation plans, subject to stockholder approval where appropriate; and (iv) overseeing certain of the Company's other employee benefit programs. Messrs. Dauman (Chair), Muething and Redstone, and Ms. Clegg and Ms. Griego are members of the Compensation Committee. The Compensation Committee met five times during the 2003 fiscal year.

Nominating Committee

The Board of Directors established a Nominating Committee in February 2003. The primary functions of the Nominating Committee include: (i) assisting the Board of Directors by identifying individuals qualified to become Board members and (ii) recommending to the Board of Directors the director nominees for election at each annual meeting of stockholders.

The Nominating Committee adopted a Nominating Committee Policy for Identifying and Evaluating Candidates for Directorships in February 2004. In accordance with such policy, the Nominating Committee evaluates candidates for director nominees in the context of the current composition of the Board of Directors, taking into account all factors it considers appropriate, including but not limited to the characteristics of independence, diversity, age, skills, experience, availability of service to Blockbuster, tenure of incumbent directors on the Board and the Board of Director's anticipated needs. The Nominating Committee believes that, at a minimum, all directors, as well as any nominating committee-recommended nominee, should have (i) high personal and professional integrity, (ii) the ability to read and understand basic financial statements, (iii) the ability to exercise sound business judgment, (iv) an understanding of the Company's business and the industry in which it operates, (v) a commitment to enhancing stockholder value and (vi) willingness and sufficient time to carry out their responsibilities as a member of the Board of Directors. In addition, at least one member of the Board of Directors should have accounting or related financial management expertise as determined in the Board's business judgment.

The Nominating Committee may rely on various resources to identify potential director nominees, including any input by the Company's current officers or directors, professional search firms or other persons. During 2004, the Nominating Committee retained Spencer Stuart to assist the Company in identifying and evaluating potential director nominees. The Nominating Committee will also consider director nominees recommended by the stockholders of the Company when properly submitted in accordance with the Company's bylaws. The procedures to be followed for any such recommendations are described further below under "Stockholder Proposals." The Nominating Committee will review and evaluate such stockholder nominations taking into account the same considerations as are taken into account for other nominees. As of the date of this Proxy Statement, the Company has not received any recommendations from stockholders for nominees for the Board of Directors.

Mr. Antioco (Chair), Ms. Griego and Mr. Redstone are members of the Nominating Committee. The Board of Directors has determined that Ms. Griego is independent, as defined by both the applicable rules of the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that each of these directors is also independent, as defined under the New York Stock Exchange's new corporate governance standards, as discussed in more detail above under "Independence of Directors." The Nominating Committee met one time during the 2003 fiscal year.

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Corporate Governance Committee

The Board of Directors established a Corporate Governance Committee in February 2003. The primary functions of the Corporate Governance Committee include: (i) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies; (ii) reviewing the criteria to be used in connection with the self-evaluations of the Board of Directors and each of its committees and overseeing the evaluation of the Board of Directors and management; and (iii) developing and recommending to the Board of Directors and administering the Corporate Governance Guidelines of the Company. Ms. Griego (Chair), Mr. Antioco and Mr. Redstone are members of the Corporate Governance Committee. The Corporate Governance Committee met two times during the 2003 fiscal year.

Special Committee

The Board of Directors established a non-standing special committee in November 2003 in connection with Viacom's potential divestiture of its equity interest in the Company, as discussed in more detail above under Voting Securities and Record Date. The functions of the Special Committee include reviewing, evaluating, and making recommendations to the Board of Directors with respect to such possible transaction. Ms. Clegg (Chair), Ms. Griego and Mr. Muething are members of the Special Committee.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN****BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information with respect to the number of shares of Viacom Inc. and Blockbuster Class A and Class B Common Stock beneficially owned by (i) the Company's Chief Executive Officer and each of the Company'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), who will be referred to in this Proxy Statement as the named executive officers; (ii) each current director and each nominee for director of the Company; and (iii) all directors and current executive officers of the Company as a group. The following table also sets forth information with respect to the number of shares of Blockbuster Common Stock beneficially owned by each person known by the Company 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.

Name	Title of Equity Securities	Beneficial Ownership of Equity Securities		
		Number of Outstanding Shares	Number of Shares Underlying Options or Conversion Rights(1)	Percent of Class
John F. Antioco	Viacom Class A Common	5,112(2)	655,974	*
	Viacom Class B Common			
Richard J. Bressler	Blockbuster Class A Common	34,021(2)	1,551,330	4.1%
	Blockbuster Class B Common			
Jackie M. Clegg	Viacom Class A Common			
	Viacom Class B Common	155(3)	1,050,000	*
Philippe P. Dauman	Blockbuster Class A Common			
	Blockbuster Class B Common			
Michael D. Fricklas	Viacom Class A Common	2,121(3)(4)		*
	Viacom Class B Common	17,563(3)(5)	22,000	*
Linda Griego	Blockbuster Class A Common	3,704		*
	Blockbuster Class B Common			
Michael D. Fricklas	Viacom Class A Common	46(3)		*
	Viacom Class B Common	1,367(3)	462,500	*
Linda Griego	Blockbuster Class A Common			
	Blockbuster Class B Common	6,887	13,200	*

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John L. Muething	Class B Common			
	Viacom Class A Common Viacom			
	Class B Common Blockbuster			
	Class A Common Blockbuster	10,387	14,000	*
	Class B Common			

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Name	Title of Equity Securities	Beneficial Ownership of Equity Securities		
		Number of Outstanding Shares	Number of Shares Underlying Options or Conversion Rights(1)	Percent of Class
Sumner M. Redstone(6)	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common	93,658,908(7)	10,562,500	70.9%
	Blockbuster Class B Common	104,345,171(7)	144,000,000(8)	81.5%
Nicholas P. Shepherd	Viacom Class A Common	3,576,145(8)		100.0%
	Viacom Class B Common	144,000,000(8)		
	Blockbuster Class A Common		9,000	*
	Blockbuster Class B Common	1,250	133,000	*
Edward B. Stead	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common		37,500	*
	Blockbuster Class B Common	85(2)	217,100	*
Nigel Travis	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common	80		*
	Blockbuster Class B Common	748	103,750	*
Larry J. Zine	Viacom Class A Common	1,710	385,815	1.0%
	Viacom Class B Common			
	Blockbuster Class A Common	2,017(2)	77,500	*
	Blockbuster Class B Common	1,078(2)	409,832	1.1%
American Century Investment Management, Inc.(9)	Blockbuster Class A Common	6,648,973(10)		17.9%
American Century Companies, Inc.(9)				
American Century Mutual Funds, Inc.(9)	Blockbuster Class A Common	3,476,043(12)		9.4%

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Goldman Sachs Asset Management, L.P.(11)				
Husic Capital Management(13)	Blockbuster Class A Common	1,857,600(14)		5.0%
Frank J. Husic & Co.(13)				
Frank J. Husic(13)				
LSV Asset Management(15)	Blockbuster Class A Common	3,874,564(16)		10.5%
Mellon Financial Corporation(17)	Blockbuster Class A Common	2,567,162(18)		6.9%
Mellon Trust of New England,				
National Association(17)				
Viacom Inc.(19)	Blockbuster Class A Common	3,576,145(8)	144,000,000(8)	81.5%
	Blockbuster Class B Common	144,000,000(8)		100.0%
Viacom International Inc.(19)				
NAIRI, Inc. (20)				
National Amusements, Inc.(20)				
Current directors and current executive officers as a group other than Mr. Redstone (14 persons) (21)				
	Viacom Class A Common			
	Viacom Class B Common	2,305(22)		*
	Blockbuster Class A Common	27,103(23)	2,482,224	*
	Blockbuster Class B Common	62,192(2)	3,084,477	7.8%

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* Less than 1%.

- (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 Sumner M. 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 Inc.'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 Inc. Class A Common Stock and 10,343 shares of Viacom Inc. Class B Common Stock owned directly by Mr. Redstone (including 263 shares through Viacom Inc.'s 401(k) plan), all shares are beneficially owned through National Amusements, Inc. Mr. Redstone is the Chairman and Chief Executive Officer of, and the beneficial owner of the controlling interest in, National Amusements, Inc.
- (8) This is based in part on a Schedule 14A filed by Viacom Inc. with the Securities and Exchange Commission on April 15, 2004. Viacom Inc. beneficially owns 3,576,145 shares of the Company's Class A Common Stock, of which shares 1,621,100 are held directly by Viacom International Inc., a wholly-owned subsidiary of Viacom Inc. Approximately 71% of Viacom Inc.'s voting stock is owned by NAIRI, Inc., which is a wholly-owned subsidiary of National Amusements, Inc. Beneficial ownership is attributed to Mr. Redstone due to his beneficial ownership and control of National Amusements, Inc., as disclosed in footnote (7) above, and NAIRI, Inc. Pursuant to the Company's Amended and Restated Certificate of Incorporation, each share of the Company's Class B Common Stock is convertible at the option of the holder thereof into one share of the Company's Class A Common Stock. As a result, Viacom Inc., Viacom International Inc., NAIRI, Inc., National Amusements, Inc. and Mr. Redstone are deemed to beneficially own 144,000,000 shares of the Company's Class A Common Stock through Viacom International Inc.'s ownership of 144,000,000 shares of the Company'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, 9th Floor, Kansas City, Missouri 64111.
- (10) This is based in part on an amendment to Schedule 13G filed with the Securities and Exchange Commission on February 20, 2004, which was jointly filed by American Century Investment Management, Inc., American Century Companies, Inc. and American Century Mutual Funds, Inc. According to the Schedule 13G, American Century Companies, Inc. beneficially owns all of the reported shares through its wholly-owned subsidiary American Century Investment Management, Inc., as a result of American Century Investment Management, Inc.'s acting as investment adviser to various persons, such as investment companies and separate institutional investor accounts, including American Century Mutual Funds, Inc., 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 Securities and Exchange Commission on February 11, 2004 by Goldman Sachs Asset Management, L.P. According to the Schedule 13G, Goldman Sachs Asset Management, L.P. beneficially owns all of the shares reported but disclaims beneficial ownership of any securities managed by third parties on Goldman Sachs Asset Management, L.P.'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 Securities and Exchange Commission 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.

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- (16) This is based in part on a Schedule 13G filed with the Securities and Exchange Commission 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 Securities and Exchange Commission on February 5, 2004, which was filed by Mellon Bank, N.A. on behalf of its parent holding company, Mellon Financial Corporation and Mellon Financial Corporation's subsidiary, Mellon Trust of New England, National Association. According to the Schedule 13G, (i) all of the shares reported are beneficially owned by Mellon Financial Corporation and its direct or indirect subsidiaries in their various fiduciary capacities, including Mellon Trust of New England, National Association, which beneficially owns 2,115,618 of such shares; (ii) Mellon Financial Corporation 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) Mellon Trust of New England, National Association 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 Inc. and Viacom International Inc. is 1515 Broadway, New York, New York 10036.
- (20) The address for NAIRI, Inc. and National Amusements, Inc. is 200 Elm Street, Dedham, Massachusetts 02026.
- (21) Including Mr. Redstone in the totals for the Company'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 Inc. Class A Common Stock is 93,661,213 and 0, respectively, or 70.9% of the class; (ii) Viacom Inc. 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.

Table of Contents**EXECUTIVE COMPENSATION****Executive Officers of the Company**

The following information regarding the Company's executive officers is as of July 1, 2004.

<u>Name</u>	<u>Age</u>	<u>Position</u>
John F. Antioco	54	Chairman of the Board of Directors and Chief Executive Officer
Frank G. Paci	46	Executive Vice President, Finance, Strategic Planning and Development
Michael K. Roemer	55	Executive Vice President and Chief Operations Officer, North America Operations
Nicholas P. Shepherd	45	Executive Vice President, Chief Marketing and Merchandising Officer
Edward B. Stead	57	Executive Vice President, General Counsel and Executive Vice President Business Development
Nigel Travis	54	President and Chief Operating Officer
Christopher J. Wyatt	47	Executive Vice President and President, International
Larry J. Zine	49	Executive Vice President, Chief Financial Officer and Chief Administrative Officer

Set forth below is a description of the background of each of the executive officers of the Company.

John F. Antioco has served as the Company's Chairman of the Board of Directors and Chief Executive Officer since 1997 and served as its President from 1997 until 2001. From 1996 until 1997, Mr. Antioco served as President and Chief Executive Officer for Taco Bell Corporation. Mr. Antioco serves as Chairman of the Board of Directors of Main Street & Main Incorporated. Mr. Antioco is also a member of the board of governors of the Boys & Girls Clubs of America.

Frank G. Paci has served as the Company's Executive Vice President, Finance, Strategic Planning and Development since 2003 and served as its Senior Vice President, Strategic Planning and Finance Operations from 2001 to 2003. Mr. Paci also served as the Company's Senior Vice President, Strategy and Planning from 2000 to 2001 and Senior Vice President International Finance and Worldwide Mergers and Acquisitions from April 2000 until October 2000. Mr. Paci served as Senior Vice President of International Finance and Administration from 1999 to 2000. From 1995 until 1998, Mr. Paci served as a Vice President for Yum Brands, formerly known as Tricon and Pepsico, where Mr. Paci was Vice President, Strategic Planning from 1997 to 1998 and Vice President, Nontraditional Business for Pizza Hut from 1995 to 1997.

Michael K. Roemer has served as the Company's Executive Vice President and Chief Operations Officer, North America Operations, since 2001 and served as its Executive Vice President and Chief Operations Officer, USA Store Operations, from 1999 until 2001. Mr. Roemer also served as the Company's Executive Vice President, Domestic Video Operations, from 1998 until 1999. From 1997 until 1998, Mr. Roemer served as the Company's Senior Vice President, Domestic Video Operations. From 1995 until 1997, Mr. Roemer served as an independent consultant for such major companies as Frito Lay, where he assisted with new product development, distribution and business process planning. Mr. Roemer serves on the Board of Governors for the Children's Miracle Network.

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Nicholas P. Shepherd has served as the Company's Executive Vice President, Chief Marketing and Merchandising Officer since 2004 and served as its Executive Vice President, Merchandising and Chief Concept Officer from 2001 until 2004. Mr. Shepherd also served as the Company's Senior Vice President and Chief Concept Officer from April 2001 until September 2001. From 1998 until 2001, Mr. Shepherd, a British national, served as the Company's Senior Vice President, Asia and Australia, and from 1995 until 1998, he served as Vice President and Managing Director of the Company's U.K. business.

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Edward B. Stead has served as the Company's Executive Vice President and General Counsel since 1997 and as its Executive Vice President Business Development, since 2001. Mr. Stead served as the Company's Secretary from 1999 until 2002. From 1988 until 1996, Mr. Stead served in various capacities with Apple Computer, Inc., including Senior Vice President, General Counsel and Secretary.

Nigel Travis has served as the Company's President and Chief Operating Officer since 2001 and served as its Executive Vice President and President, Worldwide Stores Division, from 1999 until 2001. Mr. Travis served as the Company's Executive Vice President and President, Worldwide Retail Operations, from 1998 until 1999 and as its President, International Operations, from 1997 until 1998. From 1994 until 1997, Mr. Travis served in various other capacities for the Company, including Senior Vice President, Europe. Mr. Travis, a British national, serves as the Lead Director of The Bombay Company, Inc. and is also a director of the Video Software Dealers Association.

Christopher J. Wyatt has served as the Company's Executive Vice President and President, International, since 2001 and served as its President, International, from March 2001 until October 2001. Mr. Wyatt, a British national, served as the Company's Senior Vice President, International, from 1999 until 2001, and as its Senior Vice President, International Finance, from 1998 until 1999. Mr. Wyatt also served as the Company's Finance Director, Europe, from 1996 until 1998.

Larry J. Zine has served as the Company's Executive Vice President and Chief Financial Officer since 1999 and as its Chief Administrative Officer since September 2001. From 1996 until 1999, Mr. Zine served as Chief Financial Officer for Petro Stopping Centers, L.P., where he was responsible for all operations. During 1999, Mr. Zine also served as President of Petro. Mr. Zine currently serves as a director of Petro and is also a member of the Board of Trustees for the National Urban League.

Table of Contents**Summary Compensation Table**

The following table sets forth certain information concerning the compensation of the named executive officers for each of the Company's last three fiscal years.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$)
		Salary(\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Securities Underlying Options(#)(3)	
John F. Antioco	2003	1,750,000	5,305,125	99,394(4)		16,462(5)
Chairman of the Board and Chief Executive Officer	2002	1,600,000		13,562(6)		21,750(5)
	2001	1,455,000	2,500,000	69,178(7)	200,000	2,550(8)
					600,000	
Nicholas P. Shepherd	2003	445,200	502,780		45,000	70,612(10)
	2002	400,577			20,000(9)	65,418
	2001	357,212	164,706		45,000	49,600(10)
Chief Marketing and Merchandising Officer	2003			2,581(6)	40,000	(10)
	2002			90(6)		
	2001					
Edward B. Stead	2003	498,500	560,040	9,482(6)	150,000	12,463(5)
Executive Vice President and General Counsel	2002	484,039		1,412	25,000(9)	12,101
	2001	449,615	245,725	(6)	125,000	11,240(5)
					25,000(9)	(5)
Nigel Travis	2003	697,500	827,056	4,988(11)	175,000	111,019(12)
	2002	671,154		794	30,000(9)	100,507
	2001	569,231	332,156	(13)	175,000	65,324(12)
Chief Operating Officer	2003				25,000(9)	(12)
	2002				150,000	
	2001				25,000(9)	
Larry J. Zine	2003	568,000	673,946	11,450(6)	150,000	14,200(5)
Executive Vice President, Chief Financial Officer	2002	547,885		185,358	25,000(9)	20,819
	2001	489,288	284,856	204,801(15)	150,000	19,701(5)
				(16)	25,000(9)	(5)

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and Chief Administrative Officer	125,000 25,000(9)
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- (1) This reflects bonuses earned during fiscal 2003, 2002 and 2001, respectively. Bonuses were paid during the next fiscal year.
- (2) In accordance with the rules of the Securities and Exchange Commission, other annual compensation does not include perquisites for an individual if the aggregate amount of such perquisites for that individual was less than \$50,000.
- (3) Except where noted otherwise, this reflects options to acquire shares of Blockbuster Class A Common Stock.
- (4) This includes (i) \$26,793 for personal use of the Company's plane; (ii) \$21,581 for an incentive-based trip; (iii) other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation; and (iv) \$31,970 of reimbursement for taxes.
- (5) This consists of employer matching contributions to the Company's 401(k) and excess 401(k) plans.
- (6) This consists of reimbursement for taxes.
- (7) This includes (i) \$51,781 for personal use of the Company's plane; (ii) other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation; and (iii) \$1,215 of reimbursement for taxes.

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- (8) This consists of employer matching contributions to the Company's 401(k) plan.
- (9) This reflects options to acquire shares of Viacom Inc. Class B Common Stock.
- (10) This consists of employer contributions to Blockbuster's U.K. defined contribution plan. The amounts disclosed for 2003, 2002 and 2001 reflect a conversion from British pounds to U.S. dollars at average conversion rates of 1.63330, 1.50195 and 1.440368, respectively.
- (11) This consists of reimbursement for taxes. This number does not reflect an estimated \$180,694 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2003 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2003 of 1.63330 U.S. dollars to 1.00 British pound. The accrued amount includes amounts accrued as of the end of 2002 and 2001, as disclosed in footnotes (13) and (14).
- (12) This consists of employer contributions to Blockbuster's U.K. defined contribution and supplemental defined contribution plans. The amount disclosed for 2003 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2003 of 1.63330. The amount disclosed for 2002 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2002 of 1.50195 and includes approximately \$4,000 that had accrued but had not been paid, during prior years. The amount disclosed for 2001 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2001 of 1.440368 and does not include approximately \$4,000 that had accrued, but had not been paid, during prior years.
- (13) This consists of reimbursement for taxes. This number does not reflect an estimated \$139,369 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2002 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2002 of 1.50195 U.S. dollars to 1.00 British pound. The accrued amount includes the amounts accrued as of the end of 2001, as disclosed in footnote (14).
- (14) This does not reflect an estimated \$112,901 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2001 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2001 of 1.440368 U.S. dollars to 1.00 British pound.
- (15) This includes (i) \$98,685 of forgiveness of principal and interest on a loan by the Company to Mr. Zine relating to income taxes payable in connection with his sign-on bonus, which loan was fully forgiven in April 2002; and (ii) \$72,196 of reimbursements for taxes, including reimbursements made in connection with the forgiveness of principal and interest on such loan. This also includes other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation.
- (16) This includes (i) \$103,670 of forgiveness of principal and interest on a loan by the Company to Mr. Zine relating to income taxes payable in connection with his sign-on bonus, which loan was fully forgiven in April 2002; and (ii) \$87,194 of reimbursements for taxes, including reimbursements made in connection with the forgiveness of principal and interest on such loan. This also includes other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation.

Table of Contents**Option Grants During 2003 Fiscal Year**

The following table provides information related to options granted to the named executive officers during fiscal 2003.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares of Common Stock Underlying	% of Total Options Granted to Employees in Fiscal 2003	Exercise or Base Price	Expiration	5%(\$)	10%(\$)
	Options Granted (#)(1)		(\$/Sh)	Date		
John F. Antioco	200,000(2)	4.85	15.84	July 22, 2013	1,992,338	5,048,976
Nicholas P. Shepherd	45,000(2)	1.09	15.84	July 22, 2013	448,276	1,136,020
	20,000(3)	0.08(4)	39.33	January 29, 2013	494,689	1,253,638
Edward B. Stead	150,000(2)	3.64	15.84	July 22, 2013	1,494,254	3,786,732
	25,000(3)	0.11(4)	39.33	January 29, 2013	618,361	1,567,047
Nigel Travis	175,000(2)	4.24	15.84	July 22, 2013	1,743,296	4,417,854
	30,000(3)	0.13(4)	39.33	January 29, 2013	742,033	1,880,457
Larry J. Zine	150,000(2)	3.64	15.84	July 22, 2013	1,494,254	3,786,732
	25,000(3)	0.11(4)	39.33	January 29, 2013	618,361	1,567,047

(1) Except where noted otherwise, this reflects options to acquire shares of Blockbuster Class A Common Stock.

(2) The options become exercisable with respect to one-third of the shares covered thereby on each of July 22, 2005, 2006 and 2007.

(3) This reflects options to acquire shares of Viacom Inc. Class B Common Stock. The options become exercisable with respect to 25% of the shares covered thereby on each of January 29, 2004, 2005, 2006 and 2007.

(4) This reflects the percentage of total options granted to all Viacom Inc. and Blockbuster employees. The percentage of total options granted to all Blockbuster employees was 21.43% for Mr. Travis, 17.86% for each of Messrs. Stead and Zine and 14.28% for Mr. Shepherd.

Table of Contents**Aggregated Option Exercises During 2003 Fiscal Year and Fiscal Year-End Option Values**

The following table provides information related to options exercised by the named executive officers during the 2003 fiscal year and the number and value of options held at fiscal year end. The Company does not have any outstanding stock appreciation rights.

Name	Shares Acquired on Exercise (#)	Value Realized\$(1)	Number of Securities Underlying		Value of In-the-Money Options as of	
			Unexercised Options as of December 31, 2003		December 31, 2003\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John F. Antioco	(3)		1,351,330(5)	1,335,445(5)	4,073,542(5)	2,133,225(5)
	171,200(4)	4,512,556	588,320(6)	450,000(6)	10,119,112(6)	1,071,000(6)
Nicholas P. Shepherd	(3)		133,000(5)	142,000(5)	404,350(5)	230,350(5)
	9,000(4)	249,820	4,000(6)	20,000(6)	55,270(6)	101,000(6)
Edward B. Stead	(3)		242,100(5)	427,300(5)	764,195(5)	715,785(5)
	(4)		18,750(6)	56,250(6)	30,500(6)	217,750(6)
Nigel Travis	(3)		385,815(5)	534,517(5)	1,173,154(5)	858,575(5)
	15,500(4)	385,780	83,750(6)	61,250(6)	1,775,513(6)	243,000(6)
Larry J. Zine	(3)		409,832(5)	471,834(5)	1,259,004(5)	773,410(5)
	(4)		48,750(6)	66,250(6)	81,275(6)	234,675(6)

- (1) Calculated based on the difference between the fair market value of the securities underlying the options and the exercise price of the options at the exercise date.
- (2) Calculated based on the difference between the fair market value of the securities underlying the options and the exercise price of the options at December 31, 2003.
- (3) Represents shares of Blockbuster Class A Common Stock acquired on exercise.
- (4) Represents shares of Viacom Inc. Class B Common Stock acquired on exercise.
- (5) Represents securities underlying options to purchase Blockbuster Class A Common Stock.
- (6) Represents securities underlying options to purchase Viacom Inc. Class B Common Stock.

Compensation of Directors**Retainer Fee**

Directors who do not serve as officers or employees of Viacom Inc. or Blockbuster receive an annual retainer fee of \$50,000 for membership on Blockbuster's Board of Directors. Of this amount, \$25,000 is paid in shares of the Company's Class A Common Stock that is non-transferable for one year after it is paid. The other \$25,000 is paid in cash. In addition, the Chair of the Audit Committee receives an annual retainer fee of \$7,500, and the Chair of the Senior Executive Compensation Committee receives an annual retainer fee of \$5,000. Jackie M. Clegg joined the Board of Directors on July 22, 2003 and was paid a retainer fee of \$25,000 for membership on Blockbuster's Board of Directors from such date through December 31, 2003. Ms. Clegg's retainer fee was paid half in cash and half in shares of the Company's Class A Common Stock that was non-transferable for one year after it was paid.

Attendance Fees

From January 1, 2003 through March 24, 2003, directors were paid an attendance fee of \$1,000 for each Board meeting attended and \$1,000 for each committee meeting attended if such meeting was held on a different day from the day of a Board meeting and the committee member had to travel to participate in the committee meeting. On March 25, 2003, the Board of Directors increased attendance fees to \$2,000 for participation in a Board meeting and \$1,000 for participation in a committee meeting for meetings held on a different day from the day of a Board meeting. Directors were also reimbursed for their expenses incurred in connection with their service on the Board of Directors or any committee of the Board of Directors.

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Special Committee Fees

Directors who serve on the non-standing Special Committee of the Board, described in more detail above under *Corporate Governance Committees of the Board Special Committee*, receive a cash retainer fee as well as an attendance fee of \$2,000 per meeting if attended in person and \$1,000 per meeting for participation by telephone. The cash retainer fee was initially set by the Board of Directors at \$30,000, with the Chairperson receiving an additional \$10,000 for serving in that capacity. In April 2004, the cash retainer fee was increased by the Board of Directors to \$70,000 for members and to \$80,000 for the Chairperson.

Defined Benefit Pension Plans

Through December 31, 1999, the Company participated in a non-contributory qualified defined benefit pension plan and, for some of the Company's highly compensated employees, a non-qualified excess defined benefit pension plan. Both plans are sponsored by Viacom Inc. The Company's employees became eligible to participate in these plans effective January 1, 1996, with credit for past service on and after September 29, 1994 for eligibility and vesting purposes. Benefits under both plans are determined by a formula that uses final average compensation (salary and bonus) and years of benefit service. The benefits under Viacom Inc.'s excess pension plan are not subject to the provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), that limit the compensation used to determine benefits and the amount of annual benefits payable under Viacom Inc.'s qualified pension plan.

The Company's employees ceased to participate in Viacom Inc.'s pension plans at December 31, 1999. Viacom Inc. initially retained the accrued liability for benefits under both of these plans for the Company's employees. However, in connection with the divestiture, the Company has agreed to assume up to \$800,000 of the accrued liabilities for the Company's employees for benefits under the excess defined benefit pension plan, as discussed below under *Certain Relationships and Related Transactions Relationships Between the Company and Viacom Inc. Initial Public Offering and Split-Off Agreement*. All of the Company's employees who were actively employed by the Company and participating in the qualified defined benefit pension plan or the excess defined benefit pension plan on December 31, 1999 were fully vested in their accrued benefits in these plans on that date. The factors used to determine benefits payable under these plans, compensation and years of service, were also frozen on that date, with Mr. Antioco's and Mr. Stead's (i) compensation frozen at \$160,000 each for the qualified defined benefit pension plan and \$590,000 and \$415,682, respectively, for the excess defined benefit pension plan and (ii) years of service frozen at 1.5 and 1.25, respectively.

The aggregate accrued annual retirement benefit payable under the qualified defined benefit pension plan and the excess defined benefit pension plan, assuming payment as a single life annuity at age 65 and not subject to deduction or offset, is approximately \$19,200 for Mr. Antioco and approximately \$12,200 for Mr. Stead. Messrs. Shepherd, Travis and Zine were not participants in the Viacom Inc. pension plan or excess pension plan.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

Mr. Antioco's current employment agreement with the Company provides that he will be employed as Chairman and Chief Executive Officer of Blockbuster until December 31, 2006 at an annual salary of \$1,000,000. Mr. Antioco's employment agreement also provides for deferred compensation in the amount of \$455,000, \$600,000, \$750,000, \$900,000, \$1,050,000, and \$1,200,000 for the calendar years 2001 through 2006, respectively. The deferred compensation will be payable the year after he ceases to be an executive officer of Blockbuster. In addition, Mr. Antioco is eligible to receive an annual bonus pursuant to the Company's Senior Executive Short-Term Incentive Plan. Mr. Antioco's employment agreement provides for a target bonus of 125% of his base salary and deferred compensation through the calendar year 2001 and

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150% of his base salary and deferred compensation beginning with the calendar year 2002. Mr. Antioco's bonus is payable upon satisfaction of performance objectives determined each year in accordance with the Senior Executive Short-Term Incentive Plan. In accordance with his employment agreement, (i) upon completion of the Company's initial public offering, Mr. Antioco received options to purchase 1,000,000 shares of the Company's Class A Common Stock at a price per share of \$15.00; (ii) in 2000, Mr. Antioco received options to purchase 545,455 shares of the

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Company's Class A Common Stock at a price per share of \$11.00; and (iii) in 2001, Mr. Antioco received options to purchase 344,828 shares of the Company's Class A Common Stock at a price per share of \$17.40. These options vest at a rate of 20% per year for the initial grant and 25% per year for the two subsequent grants, beginning on the first anniversary of the date of grant. Mr. Antioco's employment agreement provides for additional grants of options to purchase an aggregate of 800,000 shares of the Company's Class A Common Stock, which grants were awarded in increments of 200,000 shares on December 12, 2001, March 12, 2002, June 12, 2002 and September 12, 2002 at a price per share of \$25.55, \$24.07, \$27.38 and \$23.48, respectively. Each of such grants vest at a rate of 25% per year, which vesting began on January 1, 2003. Mr. Antioco also received options to purchase 600,000 shares of Viacom Inc. Class B Common Stock on December 13, 2001 at a price per share of \$42.00 in accordance with his employment agreement. These options vest at a rate of 25% per year, which vesting began on January 1, 2003. In the event of the termination of Mr. Antioco's employment without cause (as defined in his employment agreement) or his voluntary termination for good reason (as defined in his employment agreement) during the employment term, he will be entitled to receive his salary, target bonus, deferred compensation and agreed-upon benefits for the balance of the employment term, subject to mitigation after the earlier of (i) the first 24 months, or (ii) the last day of the employment term. In addition, his stock options, including options that have not vested by the date of termination, will be exercisable for at least six months after the date of termination, but not beyond the original expiration date of such stock options. Mr. Antioco's employment agreement with Viacom Inc. continues to apply with respect to his options to purchase Viacom Class B Common Stock. The agreement provides that, in the event of the termination of Mr. Antioco's employment without cause (as defined in the agreement) or his voluntary termination for good reason (as defined in the agreement) during the employment term, his Viacom Inc. stock options, including options that have not vested on or prior to such date, will be exercisable for at least six months after the date of termination, but not beyond the original expiration date of such stock options.

Mr. Antioco has entered into a new employment agreement with the Company that will generally become effective when Viacom ceases to own 50% of the voting power of the Company (the new employment agreement). The new employment agreement provides that Mr. Antioco will be employed as Chairman and Chief Executive Officer of the Company and as a member of the Company's Board of Directors for five years after the effective date of the new employment agreement, at an annual salary of \$1,250,000. The term of the new employment agreement provides for automatic one-year renewals unless terminated by either party. The new 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 the Company. Mr. Antioco is eligible to receive an annual bonus pursuant to the the Company's 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 performance objectives determined each year in accordance with the the Company's Senior Executive Short-Term Incentive Plan.

In accordance with the new employment agreement, upon the distribution of control (as defined in Section 368(c) of the Internal Revenue Code of 1986, as amended) of the Company to holders of Viacom common stock, Mr. Antioco will receive (i) options to purchase shares of the Company's 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 the Company; and (ii) restricted share units that vest 50% on the second anniversary of the distribution of control of the Company and 50% on the third anniversary of the distribution of control of the Company and are valued and payable in cash or stock after the termination of Mr. Antioco's employment with the Company. The 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 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 the Company, another one-third will be awarded on the 30th day after the distribution of control of the Company and the final one-third will be awarded on the 60th day after the distribution of control of the Company.

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In the event of the termination of Mr. Antioco's employment without cause (as defined in the new employment agreement) or his voluntary termination for good reason (as defined in the new employment agreement) during the employment term, Mr. Antioco will be entitled to receive (i) a lump sum payment equal to (x) the sum of his salary, deferred compensation (at the level in effect on the date of termination) and target bonus, multiplied by (y) 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 new employment agreement became effective and two years for stock options granted on or after the effective date of the new employment agreement, but not beyond the expiration date of such stock options. Any 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 the Company 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 new employment agreement) and eighteen months after the termination of his employment for cause but not in any case beyond the end of the employment term.

The new employment agreement provides that, in the event of the termination of his employment in connection with a change in control (as defined in the new employment agreement), Mr. Antioco would be entitled to receive (i) a lump sum payment equal to (x) the sum of his salary, deferred compensation (at the level in effect on the date of termination) and target bonus, multiplied by (y) 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 and payment for his stock options and restricted share units described above in connection with a termination of his employment without cause or for good reason.

The new 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 the Company to holders of Viacom common stock has not occurred by June 30, 2005.

The Company's employment agreements with each of Messrs. Stead, Travis and Zine are substantially similar. Each of these agreements provides for automatic renewal on March 1 of each year for a term of three years unless terminated by Blockbuster for any reason. Mr. Stead's, Mr. Travis' and Mr. Zine's agreements provide that they will be employed at a monthly salary of \$31,250, \$45,833 and \$37,500, respectively, subject to increase pursuant to the authority of the Senior Executive Compensation Committee to make individual compensation recommendations for such officers. Actual annual salary earned by each of the named executive officers for each of the last three fiscal years is set forth above under Summary Compensation Table. Additionally, each of the executives' agreements provides that they will be eligible to receive an annual bonus pursuant to Blockbuster's Senior Executive Short-Term Incentive Plan at a target amount of 50% of their respective Salary, as defined in the plan. Beginning with the 2002 calendar year, the Senior Executive Compensation Committee increased the target bonus for Messrs. Stead, Travis and Zine to 60% of their respective Salaries. Bonuses are payable upon satisfaction of performance objectives determined each year in accordance with the plan. In addition, pursuant to an addendum to Mr. Travis' employment agreement, Mr. Travis receives additional perquisites relating to his international assignment. During 2002, Mr. Travis' employment agreement was amended to provide for a deferred compensation arrangement, pursuant to which he has the ability to defer up to 15% of his salary and bonus. In the event of the termination of an executive's employment without cause (as defined in the agreement) during the employment term, he will be entitled to receive his salary for 36 months after the date of termination, subject to mitigation after the first twelve months. In addition, he will be entitled to receive bonus compensation and certain benefits for the balance of the employment term, subject to mitigation after the first 12 months, and his Blockbuster stock options, including

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options that would have vested during the employment term, will be exercisable for 6 months after the date of termination, but not beyond the original expiration date of such stock options.

The Company's employment agreement with Mr. Shepherd provides for automatic renewal on March 1 of each year for a term of two years unless terminated by Blockbuster for any reason. Mr. Shepherd's agreement provides that he will be employed at a monthly salary of \$33,500 and that he will be eligible to receive an annual bonus pursuant to Blockbuster's Senior Executive Short-Term Incentive Plan at a target amount of 50% of his Salary, as defined in such plan. Mr. Shepherd's salary and bonus target amount are subject to increase pursuant to the same authority as was discussed above for Messrs. Stead, Travis and Zine. Actual annual salary earned by Mr. Shepherd for each of the last three fiscal years is set forth above under Summary Compensation Table. In addition, pursuant to an addendum to Mr. Shepherd's employment agreement, Mr. Shepherd receives additional perquisites relating to his international assignment. In the event of the termination of Mr. Shepherd's employment without cause (as defined in the agreement) during the employment term, he will be entitled to receive his salary for 24 months after the date of termination. In addition, he will be entitled to receive bonus compensation and certain benefits for the balance of the employment term, subject to mitigation after the first 12 months, and his Blockbuster stock options, including options that would have vested during the employment term, will be exercisable for 6 months after the date of termination, but not beyond the original expiration date of such stock options.

Report of the Senior Executive Compensation Committee on Executive Compensation

General

The Senior Executive Compensation Committee of the Board of Directors was appointed in July 1999 in connection with the Company's initial public offering. Prior to such time, Viacom Inc.'s compensation committee determined the compensation for the Company's executive officers. Subject to existing contractual obligations, since the date of its appointment, the Senior Executive Compensation Committee has reviewed and approved the compensation for the Company's executive officers. Each of the members of this committee is an independent director.

Compensation Philosophy

The objectives of the executive compensation package for the Company's executive officers include:

setting levels of annual salary and bonus compensation that will attract and retain superior executives in the highly competitive environment of the Company's business;

providing annual bonus compensation for executive officers that varies with the Company's financial performance;

providing long-term compensation that is tied to the Company's stock price so as to focus the attention of the Company's executive officers on managing the Company from the perspective of an owner with an equity stake; and

emphasizing performance-based compensation through annual bonus compensation and long-term compensation.

The Senior Executive Compensation Committee evaluates the competitiveness of its executive compensation packages based on information from a variety of sources, including information obtained by management from consultants relating to companies of similar size and information obtained from the Company's own experience.

Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally limits to \$1,000,000 the federal tax deductibility of compensation paid to a named executive officer, including compensation received upon exercise of stock

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options. Section 162(m) provides an exception (the Performance-Based Compensation Exception) to such limitation for certain performance-based compensation, and it is the intent of the Senior Executive Compensation Committee to qualify executive compensation for such exception to the extent necessary, feasible and in the best interests of the Company. Certain compensation under the Company's 1999 Long-Term Management Incentive Plan and Senior Executive Short-Term Incentive Plan is intended to qualify for such exception. Section 162(m) also includes an exception to the \$1,000,000 deduction limitation for deferred compensation paid to an executive officer when such executive officer is no longer subject to Section 162(m).

Chief Executive Officer's Fiscal 2003 Compensation

Mr. Antioco's fiscal 2003 salary was determined pursuant to the terms of Mr. Antioco's employment agreement, which provides for (i) a base salary of \$1,000,000 and (ii) \$750,000 of deferred salary in order to address Section 162(m). In addition, Mr. Antioco's employment agreement provides for his annual eligibility for a bonus pursuant to the terms of Blockbuster's Senior Executive Short-Term Incentive Plan. In accordance with the terms of such plan, the Senior Executive Compensation Committee established bonus performance criteria based on the Company's Operating Income (as defined in the Senior Executive Short-Term Incentive Plan) for fiscal 2003. Under the terms of such plan, Mr. Antioco is eligible to receive a bonus of up to eight times his base salary and deferred compensation upon the Company's achievement of the specified performance criteria, subject to the right of the Senior Executive Compensation Committee to reduce the amount of the bonus for any reason. The Senior Executive Compensation Committee awarded Mr. Antioco a \$5,305,125 bonus for fiscal 2003 based on its determination that the established performance criteria had been achieved. The Senior Executive Compensation Committee believes that Mr. Antioco was instrumental in the Company's achievement of record revenues and profitability during 2003, which are significant from both a financial and strategic perspective. Mr. Antioco also received a grant of options to purchase 200,000 shares of the Company's Class A Common Stock during 2003.

Compensation of Other Executive Officers

Fiscal 2003 compensation for the Company's other executive officers was comprised of base salary, annual bonus compensation and long-term compensation in the form of stock options.

Salary and Bonus. Fiscal 2003 salary levels and bonuses for executive officers were designed to be consistent with competitive practice based on market assessments provided by independent consulting firms, as well as functional responsibility within the Company and were based on recommendations from the Chief Executive Officer. Fiscal 2003 bonuses for certain of the Company's executive officers were awarded under the Senior Executive Short-Term Incentive Plan based on achievement of the same performance criteria as was the bonus for the Chief Executive Officer. The executive officers who had not been designated as a participant in the Senior Executive Short-Term Incentive Plan for fiscal 2003 were awarded bonuses under the Company's Short-Term Incentive Plan for non-executives based on achievement of the established performance criteria for 2003 under such plan.

Long-Term Compensation. The Senior Executive Compensation Committee believes that the use of equity-based long-term compensation plans appropriately links executive interests to enhancing stockholder value. The Senior Executive Compensation Committee granted options to all of the Company's executive officers in 2003. The size of the grant to each executive was based on recommendations from the Chief Executive Officer, who considered factors such as the executive's functional responsibility and individual performance.

The Senior Executive Compensation Committee

Jackie M. Clegg

Linda Griego
John L. Muething

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The following chart compares the cumulative total stockholder return on the Company's Class A Common Stock over the period from August 11, 1999 to December 31, 2003, with the cumulative total return during such period of the Standard & Poor's 500 Stock Index (S&P 500 Index) and the Media General Financial Services Industry Group Index 743-Music & Video Stores (MGFS Group Index). The comparison assumes \$100 was invested on August 11, 1999 in the Company's Class A Common Stock and in each of the foregoing indices and assumes reinvestment of dividends.

**Comparison of Cumulative Total Return
of Blockbuster Inc., the S&P 500 Index and the MGFS Group Index**

	<u>8/11/99</u>	<u>12/31/99</u>	<u>12/31/00</u>	<u>12/31/01</u>	<u>12/31/02</u>	<u>12/31/03</u>
BLOCKBUSTER INC.	100.00	89.32	56.36	170.32	83.08	122.31
S&P 500 INDEX	100.00	111.18	101.05	89.04	69.37	89.26
MGFS GROUP INDEX	100.00	78.94	44.28	131.61	76.12	126.70

Table of Contents**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth certain information, as of December 31, 2003, concerning shares of Blockbuster Class A Common Stock authorized for issuance under all of Blockbuster's equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders	17,847,509	\$ 16.47	1,281,578(1)
Equity compensation plans not approved by stockholders		n/a	17,500(2)
Total	17,847,509	\$ 16.47	1,299,078

- (1) This number includes 1,219,545 shares reserved for issuance under the Blockbuster Inc. 1999 Long-Term Management Incentive Plan and 62,033 shares available for issuance to outside directors in payment of a portion of their annual retainer fees. The Blockbuster Inc. 1999 Long-Term Management Incentive Plan was last approved by Blockbuster's stockholders at the annual meeting of stockholders held on May 23, 2000. The outside director stock retainer fees were approved by Viacom International Inc., as Blockbuster's sole stockholder, on July 15, 1999.
- (2) Consists of shares reserved for issuance under the Blockbuster Inc. Chairman's Award plan, which is described below under Proposal VII Approval of the Amended and Restated Chairman's Award Plan.

Table of Contents**AUDIT COMMITTEE AND INDEPENDENT AUDITORS****Audit Committee Report**

As discussed above under Corporate Governance Committees of the Board of Directors Audit Committee, a primary purpose of the Audit Committee is to assist the Board of Directors in overseeing the quality and integrity of the Company's financial reports. In addition, the Audit Committee is directly responsible for the appointment and oversight of the work of the Company's independent auditors. As part of its responsibilities, the Audit Committee has reviewed and discussed the Company's audited consolidated financial statements with management. In addition, the Audit Committee has discussed with PricewaterhouseCoopers LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as modified by Statement on Auditing Standards No. 90 (Audit Committee Communications). The Audit Committee has also received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with PricewaterhouseCoopers LLP that firm's independence from the Company.

Based on the Audit Committee's review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

The Audit Committee

Jackie M. Clegg
Linda Griego
John L. Muething

Audit and Non-Audit Fees

The table below sets forth the aggregate fees billed by PricewaterhouseCoopers LLP for audit, audit-related, tax and other services provided to the Company in each of the last two fiscal years. Certain amounts for fiscal 2002 have been reclassified to conform to the new fiscal 2003 presentation.

	Fiscal 2003	Fiscal 2002
Audit Fees	\$ 1,849,000	\$ 1,242,000
Audit-Related Fees	53,000	169,000
Tax Fees	696,000	722,000
All Other Fees	32,000	5,225,000
Total Fees	\$ 2,630,000	\$ 7,358,000

Audit Fees

The aggregate fees billed by PricewaterhouseCoopers LLP in each of the fiscal years ended December 31, 2003 and 2002 for professional services rendered for the audit of the Company's annual financial statements and review of the financial statements included in the Company's Quarterly Reports on Form 10-Q or services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings or engagements for such fiscal years, were \$1,849,000 and \$1,242,000, respectively.

Audit-Related Fees

The aggregate fees billed by PricewaterhouseCoopers LLP in each of the fiscal years ended December 31, 2003 and 2002 for assurance and related services that are reasonably related to the performance of the audit or

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review of the Company's financial statements, and that are not reported under *Audit Fees* above, were \$53,000 and \$169,000, respectively. For fiscal 2003, these services included audits of employee benefit plans and various marketing funds. For fiscal 2002, these services included those listed for 2003, as well as due diligence related to acquisitions.

Tax Fees

The aggregate fees billed by PricewaterhouseCoopers LLP in each of the fiscal years ended December 31, 2003 and 2002 for professional services rendered for tax compliance, tax advice, and tax planning were \$696,000 and \$722,000, respectively. For fiscal 2003 and 2002, these services consisted of tax compliance, tax planning and tax advice with respect to various federal, state, local and international tax returns and tax audits, including tax matters relating to employees on international assignment and assistance with the audit by the Internal Revenue Service.

All Other Fees

The aggregate fees billed by PricewaterhouseCoopers LLP in each of the fiscal years ended December 31, 2003 and 2002 for services provided to the Company other than the services described above, were \$32,000 and \$5,225,000, respectively. For fiscal 2003, these services were performed by PricewaterhouseCoopers LLP at the request of and on behalf of an arbitration tribunal, and not on behalf of the Company, in an arbitration in Germany. For fiscal 2002, these services related to management consulting engagements, including (i) the design and implementation of a global point of sale system, (ii) the design and implementation of a customer relationship management database, (iii) product forecasting and allocation, (iv) the design of an upgraded warehouse management system and (v) other consulting services. Effective October 1, 2002, PricewaterhouseCoopers LLP sold its management consulting business, including the business unit providing these services, to IBM. As a result, management consulting services are no longer being provided to the Company by PricewaterhouseCoopers LLP.

Pre-Approval Policies and Procedures

The Audit Committee Charter provides that the Audit Committee of the Company's Board of Directors has the sole authority and responsibility to pre-approve all audit services and permitted non-audit services to be performed for the Company by its independent auditors and the related fees. Pursuant to its charter, the Audit Committee has established pre-approval policies and procedures for permitted non-audit services. The Audit Committee considers each engagement on a case-by-case basis according to certain required criteria, including that (i) the skill set necessary for the engagement should be unique to the Company's independent auditors and (ii) the engagement should not involve work that would result in the Company's independent auditors eventually auditing its own work. The Company's internal control group is responsible for meeting separately with the Company's independent auditors, as well as the Company's chief financial officer and its controller, on a monthly basis to review the current status of each outstanding engagement and the related fees incurred to date. The Audit Committee is updated on these outstanding engagements at each of its regular meetings. Based on these monthly reviews, if the Company anticipates that the fees for specific engagements may exceed the amount initially approved by the Audit Committee, the Audit Committee will consider proposals to increase the fees for such engagements on a case-by-case basis. The Audit Committee has delegated authority to its Chair to approve certain non-audit engagements that do not exceed \$20,000 individually and \$100,000 in the aggregate annually, provided that the decisions made pursuant to this delegated authority must be presented to the full committee at its next scheduled meeting. The Audit Committee has also designated an alternate committee member to approve such engagements in the event the Audit Committee Chair is unavailable.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Relationships Between the Company and Viacom Inc.

The Company and Viacom Inc. entered into several separation agreements in connection with the Company's initial public offering in August 1999 and the then-contemplated split-off and, on June 18, 2004, entered into amended and restated separation agreements in connection with the exchange offer set forth in the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on June 18, 2004, which will be referred to in this Proxy Statement as the Exchange Offer. The separation agreements govern certain relationships between the Company and Viacom relating to the split-off, as discussed below.

Initial Public Offering and Split-Off Agreement

General. The Company has entered into an Amended and Restated Initial Public Offering and Split-Off Agreement with Viacom Inc., which will be referred to in this Proxy Statement as the IPO Agreement. The IPO Agreement governs Viacom's and the Company's respective rights and duties with respect to certain offerings of the Company's Class A and Class B Common Stock and other securities, including a split-off of the Company or a similar transaction. In addition, the IPO Agreement sets forth certain covenants to which the Company and Viacom have agreed for various periods following the Company's initial public offering and certain other provisions that are applicable in the event that Viacom decides to split off the Company.

Company Securities Offerings. The Company has agreed to cooperate with Viacom in all respects to accomplish any primary offerings of the Company's common stock and other securities until the split-off. The Company 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 1933, as amended, of shares of the Company's capital stock that Viacom owns.

The Split-Off. Under the IPO Agreement, subject to the provisions described below under *Disposition of Control*, 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. The Company 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 the Company pays the special distribution, Viacom will (i) use commercially reasonable efforts to promptly dispose of 80% or more of the aggregate voting power of the Company's outstanding capital stock, which is referred to in this Proxy Statement as *control of the Company*, in a split-off exchange offer or in a split-off exchange offer in combination with a spin-off or (ii) if it has not disposed of control of the Company pursuant to (i) above, dispose of control of the Company 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 will be referred to in this Proxy Statement 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 *Conversion of the Company's 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 (i) 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 (ii) solely with respect to the second item described below, if a majority of the independent directors of the Company, having been kept 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 Company's 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 the Company that it is in good faith pursuing a transaction involving the Company (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 the Company determine, in their good faith judgment, to be more favorable to the Company's stockholders than the Exchange Offer, which is referred to in this Proxy Statement 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 the Company, which is referred to in this Proxy Statement 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 the Company'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 the Company and Viacom 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 the Company and Viacom 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 the Company or Viacom;

Any applicable registration statement necessary to register the Company's common stock being exchanged, distributed or sold by Viacom as part of such disposition has not been declared effective by the Securities and Exchange Commission, 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 Securities and Exchange Commission and not concluded or withdrawn; or

The shares of the Company's 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 the Company pursuant to a split-off or a split-off in combination with a spin-off. In addition, the IPO Agreement provides that even if the Company pays the special distribution, Viacom will not be obligated to use commercially reasonable efforts to dispose of control of the Company if, at any time prior to the declaration of the special distribution by the Company's Board of Directors, Viacom notifies the Company in writing that it does not intend to proceed with the disposition of its control of the Company.

Conversion of the Company's Class B Common Stock. The Company and Viacom have agreed to certain provisions related to the Company's equity capitalization.

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

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 the Company's total common stock outstanding following the conversion (which would occur immediately prior to completion of the Exchange Offer) that will be the Company's 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 the Company's Class B Common Stock that Viacom will convert into shares of the Company's Class A Common Stock will be decreased accordingly.

One business day following the later of (1) the closing settlement date of the 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 the Company. 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 the Company's Second Amended and Restated Certificate of Incorporation, the number of votes per share of the Company's 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

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quotient going below 0.80. In no event will the number of votes per share of the Company's Class B Common Stock be decreased below two votes per share.

For purposes of these calculations:

Modified pro forma Class A Common Stock outstanding means, without duplication, (1) the number of shares of the Company's Class A Common Stock (including any restricted shares) outstanding, plus (2) the number of shares of the Company's Class A Common Stock to be issued to settle previously exercised employee stock options, plus (3) 14 million shares of the Company's restricted stock 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 the Company's stock which have been granted to the Company'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 the Company 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 the Company's Class A Common Stock (including any restricted shares) outstanding, plus (2) the number of shares of the Company's Class A Common Stock to be issued to settle previously exercised employee stock options, plus (3) the number of shares of the Company's 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 the Company's 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 the Company's Class A Common Stock that may be issued under the Blockbuster Inc. Amended and Restated Chairman's Award Plan, plus (7) the number of restricted stock or stock units that may be settled in the Company's stock which have been granted to the Company'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 the Company 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 the Company's stock issuable in settlement of all other existing obligations.

Total common stock outstanding means the sum (measured as of the date of the Company's capital structure notice preceding the commencement of the Exchange Offer, and not the completion of the Exchange Offer) of (1) the number of shares of the Company's Class A Common Stock outstanding (including any restricted shares), (2) the number of shares of the Company's Class A Common Stock to be issued to settle previously exercised employee stock options, (3) 144 million (the number of shares of the Company's Class B Common Stock outstanding and owned by Viacom at the commencement of the 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 Equity Capitalization of the Company and Voting Power of the Company's Class B Common Stock Following the Exchange Offer. If, immediately prior to the expiration of the Exchange Offer, Viacom beneficially owns 80% or more of the economic value of the Company, Viacom will amend the terms of the Exchange Offer to provide that it will convert shares of the Company's Class B Common Stock on a one-for-one basis into shares of the Company's Class A Common Stock such that, following the completion of the Exchange Offer, as amended, 20% of the Company's total common stock outstanding will be the Company's Class B Common Stock, and 80% of the Company's total common

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stock outstanding will be the Company's Class A Common Stock. Adjustments will be made to these percentages, and to the number of votes per share of the Company's Class B Common Stock, that are similar to those described above, except that the number of votes per share of the Company's Class B Common Stock will not be lower than three votes per share.

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

Viacom's Disposition of the Company's Class B Common Stock and Commitment to Complete Spin-Off. Viacom has agreed not to sell, transfer or otherwise dispose of any shares of the Company's Class B Common Stock or converted Class A Common Stock other than pursuant to the 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 the Company's Class B Common Stock and converted Class A Common Stock. However, if Viacom distributes more than 80% of the aggregate voting power of the Company's outstanding capital stock in the 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 the Company's Class B Common Stock as compared to the number of votes each share of the Company's 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 the Company's Stock. The Company has agreed that it will not (1) authorize, grant or issue any shares of stock or any restricted stock units that may be settled in the Company's stock, except with respect to (a) the exercise of certain employee stock options, (b) up to 14 million shares of the Company's Class A Common Stock pursuant to a restricted stock exchange offer, (c) up to 20,000 shares of the Company's Class A Common Stock pursuant to the Blockbuster Inc. Amended and Restated Chairman's Award Plan, (d) up to 30,000 shares of the Company's 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 the Company's stock awarded to the Company'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.

The Company's Optionholder Agreements. The Company has agreed to use commercially reasonable efforts to have its executive officers (within the meaning of Section 16 of the Securities and Exchange Act of 1934) agree not to exercise employee stock options from four business days prior to the commencement of the 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.

Failure to Provide Information. If the Company fails to provide the information required for any of the calculations described above, Viacom may refuse to proceed with the 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 the Company's 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.

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Further Assurances. The Company and Viacom 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, the Company has generally agreed to pay all costs and expenses relating to any primary offerings of the Company's common stock while Viacom controls the Company and Viacom has generally agreed to pay all costs and expenses of the Company relating to the split-off.

Confidentiality. The Company and Viacom 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 the Company only in connection with Viacom's and the Company's prior relationship.

Access to Information. Generally, the Company and Viacom 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. The Company and Viacom have agreed to keep their books and records for a specified period of time. In addition, the Company and Viacom have agreed 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 the Company's business while Viacom controls the Company.

Covenants. The Company and Viacom have agreed to the following:

Financial and Other Information. Until the Company's results are no longer consolidated with Viacom's for accounting purposes, which is referred to below as the deconsolidation date, the Company 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 Securities and Exchange Commission filings; (v) not to file quarterly and annual reports with the Securities and Exchange Commission without Viacom's reasonable consent; (vi) to deliver to Viacom other Securities and Exchange Commission 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. The Company and Viacom 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 Securities and Exchange Commission 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 Securities and Exchange Commission filings by the Company and Viacom and the preparation or amendment of financial statements relating to periods prior to the deconsolidation date. Viacom has agreed to consult with the Company regarding changes in its accounting estimates and principles that would have an impact on the Company. For the period following the split-off, the Company and Viacom 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 Company's outstanding common stock, the Company 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

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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; (iii) any credit agreement or other material instrument binding upon 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. The Company and Viacom 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. The Company has agreed to use reasonable efforts consistent with past practice to terminate, cancel, replace or substitute Viacom and its affiliates' guarantees of certain of the Company's leases. The Company 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. The Company has further agreed to provide to Viacom, at Viacom's expense, a letter of credit in an amount not to exceed \$150,000,000 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 the Company fails to provide a replacement letter of credit within 15 business days prior to expiration of the then current letter of credit.

Non-D&O Insurance Matters. The Company and Viacom have agreed that insurance coverage provided by one to the other will cease after the split-off occurs. Ceasing coverage will not affect the Company's and Viacom'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 the Company in order to provide the Company with the ability to enforce the rights and benefits the Company would have had under vendor agreements to which Viacom is a party and under which the Company currently receives goods or services, had the Company been an actual party until the expiration of those agreements. The Company and Viacom 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. The Company and Viacom 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 the Company under Viacom's qualified defined benefit pension plan. The Company participants will be eligible to receive accrued benefits under the pension plan in accordance with its terms upon their separation from service with the Company. The Company 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 action by the Company. After the first \$1 million of such actuarial losses, the Company will indemnify Viacom for the next \$4 million of such losses. The Company has agreed to assume liabilities attributable to current and former employees of the Company in Viacom's non-qualified excess 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 the Company with any insurance coverage for the provision of benefits under certain insured employee benefit plans and programs and the Company has agreed to assume liabilities for two former Company employees who, as of the date of the split-off, are receiving payments under a self-funded long-term disability program. The Company 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 the Company and Viacom from certain of the other party's international pension and health programs.

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Wherehouse Lease Guarantees. In October 1998, about 380 Blockbuster Music stores were sold to Wherehouse Entertainment, Inc. Some of the leases transferred in connection with this sale had previously been guaranteed either by Viacom or its affiliates. Under the IPO Agreement, the Company 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, the Company estimated that it was contingently liable for approximately \$36.0 million. Of this amount, the Company 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, the Company 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, the Company reduced its reserve by \$2.6 million, resulting in a remaining reserve balance of \$7.9 million at March 31, 2004.

Options. The Company granted to Viacom International Inc. a continuing option, assignable to Viacom and any of its subsidiaries, to purchase, under specified circumstances, additional shares of the Company's Class B Common Stock or any shares of the Company's nonvoting capital stock. These options may be exercised immediately prior to the issuance of any of the Company's equity securities: (i) with respect to shares of the Company'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 the Company'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 the Company's Class B Common Stock purchased upon any exercise of the options, subject to specified exceptions, is based on the market price of the Company'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 the Company.

Indemnification Procedures. The IPO Agreement sets forth the procedures that the Company and Viacom are required to undertake if either Viacom or the Company demands to be indemnified by the other under any indemnification right given in any of the agreements between the Company and Viacom, other than the Amended and Restated Tax Matters Agreement and director and officer indemnification and guarantee discussed below.

Release and Indemnification Agreement

The Company has entered into an Amended and Restated Release and Indemnification Agreement with Viacom Inc. under which the Company and Viacom have agreed to indemnify each other and to release each other with respect to the matters described below.

Indemnification Relating to the Company's and Viacom's Assets, Businesses and Operations. The Company 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:

the Company's past, present and future assets, businesses and operations and other assets, businesses and operations managed by the Company or persons previously associated with the Company, 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 the Company's assets, businesses and operations from certain of Viacom's entities to the Company and its subsidiaries.

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Viacom similarly agreed to indemnify the Company 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 the Company has agreed to indemnify Viacom. In addition, the IPO Agreement discussed above and the Amended and Restated Transition Services Agreement, the Registration Rights Agreement and the Amended and Restated Tax Matters Agreement discussed below provide for indemnification by the Company and Viacom of the other party relating to the substance of such agreements.

Indemnification Relating to the Company's Initial Public Offering and Other Offerings. The Company 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 Securities and Exchange Commission relating to the Company's initial public offering or any other primary offering of the Company's securities while Viacom controls the Company. However, the Company's indemnification of Viacom does not apply to information relating to Viacom, excluding information relating to the Company. Viacom agreed to indemnify the Company for such information.

Indemnification Relating to the Split-Off. The Company 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 Securities and Exchange Commission relating to the split-off. Neither the Company'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 the Company 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 the Company in any representation or bring down letter, and the Company has agreed to indemnify Viacom for information subject to such a representation letter.

Release Relating to Actions Related to Viacom's and the Company's Assets, Businesses and Operations. Subject to certain exceptions, the Company 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 the Company's initial public offering) relating to Viacom's and the Company's assets, businesses and operations. Viacom has similarly released the Company.

Further Agreements. The Company and Viacom 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

The Company and Viacom Inc. entered into a Transition Services Agreement under which Viacom is providing the Company with certain accounting, management information systems, legal, financial, tax and other services. These services may change upon agreement between the Company and Viacom, and the fee for these services could be subject to adjustment. The charges for services under the Transition Services Agreement were \$1.8 million and \$450,000 for the year ended December 31, 2003 and the first quarter of 2004, respectively. The Company also agreed to pay or reimburse Viacom for any out-of-pocket payments, costs and expenses associated with these services.

On June 18, 2004, the Company and Viacom Inc. entered into an Amended and Restated Transition Services Agreement that will become