

BLOCKBUSTER INC
Form 10-Q
August 14, 2003
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-15153

BLOCKBUSTER INC.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

1201 Elm Street

Dallas, Texas 75270

Telephone (214) 854-3000

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock outstanding at August 1, 2003:

Class A common stock, par value \$.01 per share: 35,885,571

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

Table of Contents

BLOCKBUSTER INC.

INDEX TO FORM 10-Q

PART I FINANCIAL INFORMATION

| | Page |
|---|-------------|
| Item 1. | |
| <u>Consolidated Financial Statements</u> | |
| <u>Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2002 and June 30, 2003</u> | 3 |
| <u>Consolidated Balance Sheets at December 31, 2002 and June 30, 2003 (Unaudited)</u> | 4 |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2002 and June 30, 2003</u> | 5 |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 6 |
| Item 2. | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13 |
| Item 3. | |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 25 |
| Item 4. | |
| <u>Controls and Procedures</u> | 26 |

PART II OTHER INFORMATION

| | |
|--|----|
| Item 1. | |
| <u>Legal Proceedings</u> | 27 |
| Item 4. | |
| <u>Submission of Matters to a Vote of Security Holders</u> | 28 |
| Item 6. | |
| <u>Exhibits and Reports on Form 8-K</u> | 29 |

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

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|----------------|-------------------------|----------------|
| | June 30, | | June 30, | |
| | 2002 | 2003 | 2002 | 2003 |
| Revenues: | | | | |
| Rental revenues | \$ 1,064.7 | \$ 1,095.1 | \$ 2,174.8 | \$ 2,290.6 |
| Merchandise sales | 190.3 | 275.1 | 384.0 | 574.0 |
| Other revenues | 16.0 | 22.0 | 38.2 | 45.4 |
| | <u>1,271.0</u> | <u>1,392.2</u> | <u>2,597.0</u> | <u>2,910.0</u> |
| Cost of sales: | | | | |
| Cost of rental revenues | 368.6 | 329.6 | 742.9 | 713.4 |
| Cost of merchandise sold | 148.8 | 219.4 | 302.0 | 467.3 |
| | <u>517.4</u> | <u>549.0</u> | <u>1,044.9</u> | <u>1,180.7</u> |
| Gross profit | <u>753.6</u> | <u>843.2</u> | <u>1,552.1</u> | <u>1,729.3</u> |
| Operating expenses: | | | | |
| Selling, general and administrative | 624.7 | 676.3 | 1,247.9 | 1,352.0 |
| Depreciation | 56.4 | 61.4 | 111.9 | 122.8 |
| Amortization of intangibles | 0.5 | 0.2 | 0.9 | 0.5 |
| | <u>681.6</u> | <u>737.9</u> | <u>1,360.7</u> | <u>1,475.3</u> |
| Operating income | <u>72.0</u> | <u>105.3</u> | <u>191.4</u> | <u>254.0</u> |
| Interest expense | (11.9) | (9.0) | (24.5) | (19.7) |
| Interest income | 1.2 | 0.8 | 2.3 | 1.6 |
| Other items, net | 2.7 | 3.5 | 1.0 | 3.1 |
| | <u>64.0</u> | <u>100.6</u> | <u>170.2</u> | <u>239.0</u> |
| Income before income taxes | <u>64.0</u> | <u>100.6</u> | <u>170.2</u> | <u>239.0</u> |
| Provision for income taxes | (22.2) | (39.4) | (62.6) | (92.2) |
| Equity in income (loss) of affiliated companies, net of tax | (0.1) | (0.1) | 0.1 | (0.7) |

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| | | | | |
|---|----------------|----------------|---------------------|-----------------|
| Income before cumulative effect of change in accounting principle | 41.7 | 61.2 | 107.7 | 146.1 |
| Cumulative effect of change in accounting principle, net of tax | | | (1,817.0) | (4.4) |
| Net income (loss) | \$ 41.7 | \$ 61.2 | \$ (1,709.3) | \$ 141.7 |
| Income per share before cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.23 | \$ 0.34 | \$ 0.61 | \$ 0.81 |
| Diluted | \$ 0.23 | \$ 0.34 | \$ 0.59 | \$ 0.81 |
| Cumulative effect of change in accounting principle per share: | | | | |
| Basic | \$ | \$ | \$ (10.21) | \$ (0.02) |
| Diluted | \$ | \$ | \$ (10.03) | \$ (0.02) |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.23 | \$ 0.34 | \$ (9.61) | \$ 0.79 |
| Diluted | \$ 0.23 | \$ 0.34 | \$ (9.43) | \$ 0.79 |
| Weighted-average shares outstanding: | | | | |
| Basic | 178.6 | 179.8 | 177.9 | 179.7 |
| Diluted | 182.2 | 180.6 | 181.2 | 180.4 |
| Cash dividends per common share | \$ 0.02 | \$ 0.02 | \$ 0.04 | \$ 0.04 |

See notes to unaudited consolidated financial statements.

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

| | December 31, | June 30, |
|---|---------------------|--------------------|
| | 2002 | 2003 |
| | <u> </u> | <u> </u> |
| Assets | | (Unaudited) |
| Current assets: | | |
| Cash and cash equivalents | \$ 152.5 | \$ 129.3 |
| Receivables, less allowances of \$7.4 and \$9.7 for 2002 and 2003, respectively | 184.8 | 142.2 |
| Merchandise inventories | 452.1 | 359.9 |
| Prepaid assets and other current assets | 169.5 | 159.9 |
| | <u> </u> | <u> </u> |
| Total current assets | 958.9 | 791.3 |
| Rental library | 423.1 | 371.1 |
| Receivable from Viacom, net | 23.0 | |
| Property and equipment, net | 874.9 | 829.8 |
| Intangibles, net | 27.4 | 34.8 |
| Goodwill | 3,883.5 | 3,892.0 |
| Other assets | 53.0 | 60.8 |
| | <u> </u> | <u> </u> |
| | \$ 6,243.8 | \$ 5,979.8 |
| | <u> </u> | <u> </u> |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 757.0 | \$ 469.4 |
| Accrued expenses | 582.6 | 514.7 |
| Current portion of long-term debt | 109.8 | 282.8 |
| Current portion of capital lease obligations | 23.0 | 21.4 |
| Payable to Viacom, net | | 24.7 |
| Deferred taxes | 5.2 | 5.2 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 1,477.6 | 1,318.2 |
| Long-term debt, less current portion | 328.9 | 52.3 |
| Capital lease obligations, less current portion | 79.8 | 77.4 |
| Deferred taxes | 116.0 | |