



http://www.usatoday.com/money/media/2010-09-23-blockbuster23_ST_N.htm

Blockbuster files for Chapter 11 bankruptcy, will reorganize

By [David Lieberman](#), USA TODAY
September 23, 2010



Increased competition in the video rental business has taken a toll on Blockbuster rental stores.

Troubled video-rental chain [Blockbuster](#) filed for Chapter 11 bankruptcy protection Thursday, and said it plans to keep stores and kiosks open as it reorganizes.

The filing comes about a month before the 25th anniversary of the opening of Blockbuster's first store in Dallas. "End of an era' summarizes it neatly," says John Tinker, senior media analyst at Maxim Group, a brokerage firm.

The move, long expected and pre-arranged with bondholders, ends an era

that Blockbuster dominated — of Americans visiting video stores for movie rentals. Increasingly, Americans are watching movies via video subscription services such as [Netflix](#), vending machine services such as [Redbox](#) and services that offer movies on demand via cable, satellite and the Internet.

In a submission to the U.S. Bankruptcy Court in the Southern District of New York on Thursday, Blockbuster said it reached an agreement with its bondholders on a recapitalization plan.

Blockbuster plans to reduce debt from nearly \$1 billion to about \$100 million or less by swapping debt for equity in a reorganized Blockbuster with bondholders that hold about 80% of the company's senior notes.

It has received commitments for \$125 million in "debtor-in-possession" financing from senior noteholders to repay customers, suppliers and employees during the reorganization.

"After a careful and thorough analysis, we determined that the process announced today provides the optimal path for recapitalizing our balance sheet and positioning Blockbuster for the future as we continue to transform our business model to meet the evolving preferences of our customers," said CEO Jim Keyes.

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

But Blockbuster has been losing money and market share for years. As Netflix and other services gained popularity, Blockbuster tried to keep up. It ended late fees and started online and kiosk services of its own. But it was unable to keep its debt in check.

[Hollywood Video](#) parent Movie Gallery, once the second-largest U.S. movie rental chain behind Blockbuster, also fell victim to changing movie-watching habits and filed for bankruptcy protection in February — its second trip through bankruptcy court. It liquidated in August.

Blockbuster, based in Dallas, earlier this year said it would close hundreds of stores and said it was struggling with liquidity problems. It had warned investors it might file for bankruptcy protection and was delisted in early July by the [New York Stock Exchange](#).

Blockbuster said Thursday that its 3,000 stores in the U.S., DVD vending kiosks, by-mail and digital businesses will all continue to operate. Operations outside the U.S. and domestic and international franchisees are not part of the Chapter 11 reorganization.

Billionaire investor [Carl Icahn](#) will help steer the latest efforts to save Blockbuster, reviving a role he played previously in trying to shape up the company. He has thrust himself into position of power, this time by snapping up about one-third of Blockbuster's highest-priority debt, according to a report in The Wall Street Journal.

Blockbuster said in its filing it had about \$1 billion in assets and \$1.46 billion in debt.

Blockbuster's largest creditors include the [Bank of New York Mellon](#), [Twentieth Century Fox](#) Home Entertainment, [Warner Home Video](#), [Sony](#) Pictures Home Entertainment, The [Walt Disney Co.](#), [Universal Studios](#) Home Entertainment and other movie studios.

The video chain owned 3,023 stores in the U.S. and had 402 franchises as of July. A bankruptcy "will enable (Blockbuster) to break the leases," says Kenneth Latz, director of the New York office of financial restructuring firm Conway MacKenzie.

Blockbuster could eventually liquidate, as Movie Gallery did, says Kim Noland, who tracks high-yield debt for analysis service Gimme Credit.

Blockbuster's effort to compete with Netflix, which provides video on-demand service or mails DVDs to subscribers who order them online, appears to have stalled. Blockbuster's website

attracted 2.9 million unique visitors in July, down 72.6% from the same month in 2007, [ComScore](#) reports. Netflix had 21.7 million visitors, up 132.9% over the three-year period.

"The glory days are gone," says Harold Vogel of Vogel Capital Management.

Contributing: USA TODAY's David Lieberman; The Associated Press

Copyright 2010 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.