

BLOCKBUSTER INC
Form 424B3
September 09, 2004
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-116617

VIACOM INC.

Offer to Exchange

2.575 Shares of Class A Common Stock

and

2.575 Shares of Class B Common Stock

of

BLOCKBUSTER INC.

which are owned by Viacom Inc.

for

Each Outstanding Share of Class A Common Stock or Class B Common Stock

of

VIACOM INC.

THIS EXCHANGE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON OCTOBER 5, 2004 UNLESS THE OFFER IS EXTENDED. SHARES TENDERED PURSUANT TO THIS EXCHANGE OFFER MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION OF THIS EXCHANGE OFFER.

Viacom is offering to exchange 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock for each outstanding share of Viacom class A or class B common stock that is validly tendered and not properly withdrawn, up to an aggregate of 27,961,165 shares of Viacom class A and class B common stock. The terms and conditions of this exchange offer are described in this Prospectus-Offer to Exchange, which you should read carefully. Neither Viacom nor Blockbuster, nor any of their respective directors or officers, nor the co-dealer managers, makes any recommendation as to whether you should participate in this exchange offer. You must make your own decision after reading this document and consulting with your advisors.

Viacom's obligation to exchange shares of Blockbuster class A and class B common stock for shares of Viacom class A or class B common stock is subject to the conditions listed under "The Exchange Offer - Conditions for Completion of this Exchange Offer" beginning on page 79. Viacom's class A and class B common stock are listed on the New York Stock Exchange under the symbols VIA and VIAB, respectively, and Blockbuster's class A common stock is listed on the New York Stock Exchange under the symbol BBI. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster's class B common stock will be listed on

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the New York Stock Exchange under the symbol BBI.B. There is no historical trading market for Blockbuster's class B common stock because Viacom has owned all of the issued and outstanding shares of Blockbuster class B common stock since their issuance. Shares of Blockbuster class A common stock are entitled to one vote per share. Shares of Blockbuster class B common stock are currently entitled to five votes per share, and after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement" beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this Prospectus-Offer to Exchange or determined if this Prospectus-Offer to Exchange is accurate or adequate. Any representation to the contrary is a criminal offense.

See **Risk Factors** beginning on page 31 for a discussion of certain factors that you should consider in connection with this exchange offer.

The co-dealer managers for this exchange offer are:

BEAR, STEARNS & CO. INC.

and

GOLDMAN, SACHS & CO.

This document incorporates by reference important business and financial information about Viacom and Blockbuster from documents filed with the Securities and Exchange Commission that have not been included in or delivered with this document. This information is available at the website that the Securities and Exchange Commission maintains at <http://www.sec.gov>, as well as from other sources. See "Where You Can Find More Information About Viacom and Blockbuster" beginning on page 157.

You also may ask any questions about this exchange offer or request copies of the exchange offer documents from Viacom, without charge, upon written or oral request to Viacom's information agent, MacKenzie Partners, Inc., located at 105 Madison Avenue, New York, New York 10016 at (800) 322-2885 (toll-free) in the United States or at (212) 929-5500 (collect) elsewhere. In order to receive timely delivery of the documents, you must make your requests no later than September 28, 2004.

The date of this Prospectus-Offer to Exchange is September 9, 2004.

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LETTER FROM BLOCKBUSTER CHAIRMAN & CEO JOHN ANTIOCO

To Viacom Stockholders

As you consider this exchange offer being made by Viacom, I want to take this opportunity to summarize my personal vision for Blockbuster. Whatever the competitive set – mass merchants, rentailers, game boutiques or online rental services – Blockbuster plans to set itself apart from the competition by transforming itself from a place where you go to rent a movie to a brand where you go to rent, buy or trade a movie or game, new or used, pay-by-the-day, pay-by-the-month, in-store or online. When we achieve this vision, I believe Blockbuster will be a multi-dimensional, highly differentiated and highly profitable home entertainment brand. We see the opportunity for the future growth of Blockbuster. We also see the challenges that face our company and our business, which we have discussed in the Prospectus-Offer to Exchange. As you consider Viacom's exchange offer, please take the time to read and consider the entire Prospectus-Offer to Exchange.

Two years ago Blockbuster announced its new corporate mission statement: to be a complete source for movies and games. Since that time, we have come a long way in redefining BLOCKBUSTER® as a place where customers can *not only* rent movies and games, *but also* buy and trade them as well.

Given Blockbuster's ongoing transformation from a renting-only company into a specialty retailer of home entertainment, we believe now is an appropriate time for us to separate from Viacom. Over the course of the past ten years, Viacom has been a supportive majority stockholder, but as Blockbuster has moved to participate on a broader scale in the home entertainment retailing marketplace, we have moved away from the core media business of Viacom.

Blockbuster and Viacom have different competitive strengths, different operating philosophies, and different strategies designed to achieve future growth. However, Blockbuster and Viacom are united in the belief that a split-off of Blockbuster from Viacom will enable each company, respectively, to better focus its managerial and financial resources.

A brief history of Blockbuster's transformation

As a fully independent company, we are looking forward to accelerating our transformation into a specialty retailer of home entertainment. We began this transformation process in 2002 when we established Blockbuster in a much more significant way in the movie retailing business. At that time, we increased our retail movie inventory, merchandising presence and advertising, and implemented various retail sales promotions. It was all part of a plan to have customers notice that there was something new at Blockbuster, and notice they did. We were successful at establishing Blockbuster as a movie retailer, as well as a rentailer.

Our mission didn't change in 2003. We continued to dedicate ourselves to expanding our movie and game offerings, and to accomplishing this transformation more profitably by improving gross margins, reducing low-profit transactions, reducing advertising expenditures and refining marketing programs to give us a better return on investment. This focus on profitability played a central role in our efforts to transform Blockbuster, as the steady operating cash flow from our core rental business has provided us with the ability to invest in new initiatives. Specifically, these new initiatives are rental subscription programs (both in-store and online), movie and game trading, and video game concepts.

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We believe our new initiatives will enable us to take advantage of major emerging trends in home entertainment, and throughout the remainder of this year we intend to invest heavily in these initiatives. However, we are realistic about the start-up expenses required for new businesses, and we also understand that some of our new initiatives are at the beginning of what we believe is their potential growth curve. As a result of our investment spending, in combination with the continued weakness in the rental industry, profits for this year and next will be negatively impacted.

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Although these investments in our business will result in short-term sacrifices, we believe the steps we are taking should drive future revenues and are in the long-term interests of our stockholders, our employees and our company.

The market dynamics of home video have changed presenting Blockbuster with challenges and opportunities

Blockbuster has been experiencing declining rental transactions due to increasing competition from various home entertainment alternatives such as retail, cable, satellite, online services and traditional competition. It is anticipated that product offering, promotional activity and price will become increasingly important as Blockbuster tries to differentiate itself in this competitive environment. In addition, we recognize that the video rental market has contracted as a result of the format change from VHS to DVD and the resulting elimination of the exclusive rental window. Some customers are buying movies instead of renting now that they have a choice to buy retail-priced DVDs, and that dynamic should continue to provide challenges both for Blockbuster and the rest of the movie rental industry. However, the market shift to DVD, with lower wholesale pricing than was historically available for VHS movies, has also presented us with opportunities. Due in part to the shift from rental-priced VHS to retail-priced DVD, Blockbuster's rental gross margin significantly improved last year, producing an increase in our consolidated gross profit dollars of almost 10% year-over-year in 2003.

Further, the lower initial wholesale pricing of DVD titles has enabled us to offer copy depth to our customers at higher margins without many of the restrictions of our old VHS revenue-sharing agreements. Furthermore, greater copy depth has caused the market for used DVDs to grow significantly, which we believe represents a significant opportunity for Blockbuster. With so many consumers building movie home libraries as a result of retail-priced DVDs, Blockbuster is now able to enter the movie trading business. Additionally, retail-priced DVD has led to the creation of the subscription rental business, both in-store and online.

In addition to all these benefits, there is still one more. The success of DVD, and the huge and growing profits generated by this digital format for the Hollywood studios, appear to have solidified the studios' window sequencing order as it relates to our video rental business. In other words, because the sale and rental of DVD represent the studios' largest revenue stream, we believe that the studios for now will continue to release movies to retail home video before they are available on video on demand (VOD). This should reduce any threat that VOD could pose to our business.

So while changes in the marketplace have presented challenges, we believe that some of these changes also have created opportunities to grow our business in the future.

Our core movie rental business an opportunity to grow by increasing market share

In 2003, the U.S. video rental industry generated more than \$8 billion in revenues and, while admittedly retail-priced DVD has negatively impacted the rental channel, the rental category should continue to generate billions of dollars in revenues for the foreseeable future according to even conservative industry analyst estimates.

Our plan going forward is to capture a larger share of the domestic rental market and drive more rental customers into our stores through a combination of marketing, promotion, and new rental offerings. As a result, we intend to be able to expose a growing number of customers to our expanding number of new offerings with the goal of increasing the size and number of our transactions and, eventually, our profitability.

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To accomplish all of this, we intend to reinvent the way people rent home entertainment, and we intend to do this through our rental subscription programs both in-store and online.

In late May of this year, we began offering on a national basis the BLOCKBUSTER MOVIE PASS, our store-based movie subscription program that we have been testing in multiple markets since the summer of 2002. For a flat monthly fee, the movie pass allows customers to rent an unlimited number of movies, two or three at a time, without return dates or extended viewing fees for as long as they subscribe to the pass. We see the movie

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pass as a key means of increasing our rental traffic in a tough rental market. Our goal is to have 8% of our active monthly members on the service by the end of this year and 10% of our active monthly members paying us a monthly fee by the end of 2005.

As for renting movies online, we see this as a sizable opportunity that can contribute to our long-term profitability. As a defensive strategy, we don't want customers, who are interested in renting online, going anywhere else for their movies. As an offensive move, we think online rentals could represent new customers for us because many potential subscribers live outside the proximity of a BLOCKBUSTER store.

To begin serving these potential online customers, we launched an online rental service in the United Kingdom in mid-May, and launched BLOCKBUSTER Online, our online rental service in the United States, in August. Our plan is to utilize the full power of our globally recognized brand, our marketing ability, our rich customer database and the promotional opportunities afforded by our store network to gain as many subscribers as possible. We see no reason why we can't have a substantial share of the online rental transactions by the end of next year. We are also proceeding with our plans to merge our U.S. in-store and online subscription programs in 2005. This integrated approach should give our customers the best of both worlds—the ability to rent or return movies by mail or at their local BLOCKBUSTER store.

The movie and game trading business—a new growth opportunity

Another opportunity we are aggressively pursuing and plan to have in place in 2004 is movie and game trading. We believe movie and game trading at Blockbuster represents a significant source of future incremental revenues. Many of the DVDs purchased in the United States last year were previously viewed, and Blockbuster is already the nation's largest retailer of used DVDs. We believe that our customers, who are already accustomed to buying previously rented DVDs from us, will be interested in selling and buying previously owned DVDs at Blockbuster as well.

According to our internal estimates, there are almost two billion DVDs in home video libraries across the United States. There are even more when you factor in international markets, and our research indicates that consumers would be interested in trading many of their DVD movies if they could get a fair value for them.

We first offered the concept of movie trading at our stores during the holiday season of 2003 with our Big DVD Trade-In promotion that gives customers the opportunity to trade in a used DVD and purchase a popular, new title for a reduced price. Also, we have been testing a more comprehensive trading model that enables customers to receive store credit for their used DVDs, which can be used for anything in our stores—movies, games or merchandise.

While our trading program is still in its early stages, we believe a strong demand for DVD trading will emerge as consumers learn that trading is a smart, economical way to refresh their movie libraries or monetize their collections. So movie trading is one more benefit we can offer our customers, one more way we can leverage our existing store locations and store traffic and one more way we can differentiate Blockbuster from traditional retailers.

We have tested the trading market since 2002 with the acquisitions of Movie Trading Company and GAMESTATION®, which are freestanding trading store chains. We intend to have movie and game trading available in more than 2,000 of our U.S. stores and all of our 700-plus U.K. stores by the end of 2004.

Games store-in-store concepts another initiative for the future

We also expect to grow our games business by continuing to develop our games store-in-store concepts.

In the United Kingdom, our GAMESTATION chain continues to perform extremely well. As of June 30, 2004, we had approximately 180 GAMESTATION locations, both freestanding and store-in-stores, a net addition of approximately 115 locations since we purchased the chain in late 2002.

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As for the United States, this year we intend to open an additional 300 games store-in-stores under our GAME RUSH logo for a total of 450 domestic games store-in-stores opened in less than one year. In addition, we intend to open approximately 50 new GAME RUSH locations outside of the United States. These GAME RUSH locations offer game rental, retail and trading all within the convenience of a Blockbuster store. By operating GAME RUSH as a store-in-store concept, we believe we will be able to maximize our operating efficiencies by having dedicated game staff during peak hours and utilizing employees from our movie rental operations during slower times. Additionally, we are able to install the GAME RUSH concept quickly with minimal store disruption for a relatively modest investment.

Going forward, we think that about half of our domestic stores, as well as many of our international locations, could accommodate the GAME RUSH concept, and we plan to have 1,000 games store-in-stores operating by the end of 2005.

As with our other initiatives, we intend to be a very aggressive competitor with GAME RUSH. This concept offers us an incremental revenue stream with no additional real estate costs and brings us the opportunity to generate increased customer traffic for the entire store. So once we have established critical mass, we plan to broadly communicate that GAME RUSH is absolutely the best place to buy, rent or trade video games.

Service, store-growth, systems-development & diversity more emphasis going forward

Another initiative designed to differentiate Blockbuster in the marketplace is our continued emphasis on superior service. We believe this emphasis on service, when combined with our array of retail-rental movie and game offerings, will set us apart from other retailers and position Blockbuster as a one-of-a-kind specialty home entertainment retailer. We are now into our second year of implementing initiatives designed to improve customer service at our stores both in the United States and around the world. These initiatives are designed to enable us to eliminate non-value added store activities through better processes and improve service by giving our employees more time to interact with customers. This emphasis on customer service is a critical part of our plan to differentiate ourselves in the marketplace as a specialty retailer of movies and games.

Still an additional undertaking for us in 2004 is the continued upgrading of our management information systems and infrastructure. We are putting a great deal of resources this year into developing and refining our systems, which will in turn support initiatives like our rental subscription and trading programs.

We will also continue to add new stores around the world, both corporate and franchised, and as a multi-national retailer, we remain committed to ensuring that our workforce, supplier base and product offerings reflect the diverse populations we serve.

In summary

The home entertainment market has changed significantly in the past few years, largely due to the emergence of retail-priced DVD, the resulting competition from mass merchants and the increasing availability of other entertainment options. These changes have presented our industry with challenges; however, they have also presented us with new opportunities, including rental subscription programs, online and in-store, movie and game trading, and games store-in-stores, which have the potential to contribute significantly to our operating profits.

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All of these initiatives require financial investment. Investment in new information technology systems, store facilities, new processes to ensure employee productivity, marketing, incentives for store personnel, aggressive promotions, and much more. These initiatives also require investments of people resources and a lot of hard work. In short, our transformation will not be easy.

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I believe we are up to the challenge and that we will be better equipped to achieve our goals as an independent, stand-alone company rather than as a subsidiary of Viacom. Blockbuster is a great brand and a great retailing concept. We have approximately 9,000 stores worldwide. We have a plan in place that should allow us to grow our business, and I believe we have the management team, the employees and the franchisees that will enable us to transform Blockbuster into *the* complete source for movies and games.

Sincerely,

JOHN ANTIOCO

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QUESTIONS AND ANSWERS ABOUT THIS EXCHANGE OFFER

Q: Why has Viacom decided to separate Blockbuster from Viacom?

A: Viacom's board of directors has authorized the divestiture of its approximately 81.5% interest in Blockbuster. As a result of the divestiture, Blockbuster will be an independent entity. Each company believes that the separation of Blockbuster from Viacom will provide numerous corporate benefits to itself and the other company, the most important of which are listed below.

Facilitate Viacom's and Blockbuster's Respective Expansion and Growth. Viacom and Blockbuster have significantly different competitive strengths and operating strategies, and each company believes that the separation of Blockbuster from Viacom, which is referred to in this Prospectus-Offer to Exchange as the split-off, will strengthen its ability to focus its managerial and financial resources on developing and growing its core businesses. Viacom is a diversified, broad-based media business, and desires to emphasize capital investment opportunities in its core businesses, rather than investing capital in initiatives that would enhance Blockbuster's growth. Blockbuster is in the rental and retail home video and game industry and shares many more characteristics with other retailers than with Viacom's other businesses. Blockbuster has a number of strategic initiatives that it is currently pursuing in response to industry changes. For example, Blockbuster has plans to expand its rental subscription programs and to continue to develop its games concepts and its movie and games trading model. Execution of these initiatives will move Blockbuster's business further away from Viacom's areas of strategic focus.

Resolve Appearance of Competitive Conflicts Involving Blockbuster and Paramount Pictures. Paramount Pictures Corporation, a Viacom subsidiary, is in the motion picture business and competes with other movie studios. As a result, Blockbuster believes that the other movie studios, which supply Blockbuster with its movies, consider Blockbuster's affiliation with Paramount Pictures to be a conflict of interest. Similarly, because Paramount Pictures supplies movies to Blockbuster's competitors in the video rental market, Viacom believes that Blockbuster's competitors, who are customers of Paramount Pictures, view Paramount Pictures as having a conflict of interest. The split-off should eliminate these perceived competitive conflicts.

Facilitate Investment Decisions by Stockholders. Following the split-off, it will be easier for potential investors to assess Viacom and Blockbuster on an independent basis and choose the company in which to invest and in what relative percentages. The split-off is expected to enable Viacom stockholders who currently own an indirect interest in Blockbuster through Viacom to convert their investment to a direct ownership of Blockbuster in a tax-efficient manner.

Q: Why did Viacom choose this exchange offer as the way to separate Blockbuster from Viacom?

A: Viacom believes this exchange offer is a tax-efficient way to achieve the goals outlined in response to the first question above. It also is expected to allow you, as a Viacom stockholder, to adjust your investment between Viacom and Blockbuster on a tax-free basis for U.S. federal income tax purposes, except with respect to any cash you receive in lieu of fractional shares of Blockbuster class A and class B common stock. This exchange offer also is intended to be tax-free to Viacom.

Q: How will the relationship between Blockbuster and Viacom change after this exchange offer is completed?

A: The split-off is intended to establish Blockbuster as an independent entity. Consequently, after

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this exchange offer, because Viacom will no longer own a controlling interest in Blockbuster, Blockbuster's board of directors and management will be free to pursue initiatives that they believe are in Blockbuster's best interest without requiring these initiatives to be consistent with Viacom's view of the best interests of Blockbuster or Viacom. In addition, after this exchange offer, Blockbuster will provide all of its own management, financial, tax, accounting, legal and other resources, some of which were previously provided by Viacom. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Transition Services Agreement" on page 114. In addition, all of the Blockbuster directors who are also directors or officers of Viacom will resign from Blockbuster's board of directors.

Q: Will the split-off have a financial impact on Blockbuster as an independent company?

A: Following the split-off, Blockbuster anticipates that the renegotiation of services or contracts currently provided by Viacom will result in increased operating expenses. In addition, prior to the commencement of this exchange offer, on September 3, 2004, Blockbuster paid a pro rata special cash distribution of \$5.00 per share (approximately \$905.6 million in the aggregate) to its stockholders, which is referred to in this Prospectus-Offer to Exchange as the "special distribution." As a Viacom stockholder, you were not entitled to receive the special distribution, unless, as of the record date for the special distribution, you also directly held shares of Blockbuster common stock. Blockbuster used borrowings of \$650 million under its new credit agreement and the proceeds of its sale of \$300 million aggregate principal amount of 9% senior subordinated notes due 2012, which are referred to in this Prospectus-Offer to Exchange as the "senior subordinated notes," to fund the payment of the special distribution and finance transaction costs and expenses in connection with the split-off and the special distribution. This new indebtedness will result in increased interest expense as well as customary restrictions regarding matters such as dividends, stock repurchases and the ability to incur additional indebtedness. See the sections entitled "Market Prices and Dividend Information Shares of Blockbuster Class A and Class B Common Stock and Dividends," "Description of Other Material Agreements New Blockbuster Credit Agreement" and "Description of Other Material Agreements Indenture Governing 9% Senior Subordinated Notes Due 2012" beginning on pages 86, 149 and 151, respectively.

Q: May I participate in this exchange offer?

A: Any holder of Viacom class A or class B common stock, including Viacom class A or class B common stock that is held through a Viacom or Blockbuster employee benefit plan, may participate in this exchange offer. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of the deadline for directing the trustee of these plans to tender shares held in your plan account.

Q: How many shares of Blockbuster class A and class B common stock will I receive for each share of Viacom class A or class B common stock that I tender?

A: Subject to the proration procedures described below, you will receive 2.575 shares of Blockbuster class A common stock and 2.575 shares of Blockbuster class B common stock for each share of Viacom common stock that you tender and do not withdraw in this exchange offer, regardless of whether you tender shares of Viacom class A or class B common stock. This number of shares of Blockbuster class A and class B common stock you will receive in exchange for each share of Viacom common stock you tender is referred to in this Prospectus-Offer to Exchange as the "exchange ratio." Fractional shares of Blockbuster class A and class B common stock will not be issued in this exchange offer (other than to participants in Viacom and Blockbuster employee benefit plans who participate in this exchange offer); instead you will receive cash in lieu of fractional shares. The exchange agent, acting as agent for the Viacom stockholders otherwise entitled to receive fractional shares of

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Blockbuster class A and class B common stock, will aggregate all fractional shares and cause them to be sold in the open market for the accounts of these stockholders.

For example, if you tender either 100 shares of Viacom class A common stock or 100 shares of Viacom class B common stock, you will receive 257 shares of Blockbuster class A common stock, 257 shares of Blockbuster class B common stock and cash in lieu of 0.50 of a share of Blockbuster class A common stock and 0.50 of a share of Blockbuster class B common stock.

Q: What is the aggregate number of shares of Blockbuster class A and class B common stock being offered in this exchange offer?

A: Viacom is offering an aggregate of 72 million shares of Blockbuster class A common stock and 72 million shares of Blockbuster class B common stock, such that following the completion of this exchange offer, the aggregate outstanding Blockbuster common stock will consist of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock. As of the date of this Prospectus-Offer to Exchange, Viacom owns 144 million shares of Blockbuster class B common stock, representing all of the outstanding shares of Blockbuster class B common stock. Prior to the completion of this exchange offer, Viacom will convert 72 million shares of Blockbuster class B common stock, on a one-for-one basis, into shares of Blockbuster class A common stock. These shares of Blockbuster class A common stock are referred to in this Prospectus-Offer to Exchange as converted class A common stock. In this exchange offer, Viacom is offering all of its shares of Blockbuster class B common stock and converted class A common stock.

Q: Why is Viacom converting some of its Blockbuster class B common stock to Blockbuster class A common stock and offering both in this exchange offer?

A: Viacom has agreed to convert 72 million shares of Blockbuster class B common stock on a one-for-one basis into Blockbuster class A common stock and offer both classes of stock in this exchange offer. As discussed below, Blockbuster's amended and restated certificate of incorporation, which is referred to in this Prospectus-Offer to Exchange as Blockbuster's certificate of incorporation, will be amended immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. Viacom has agreed to convert these shares and to support the change in the voting rights of the Blockbuster class B common stock as the result of arm's length negotiations with a special committee of Blockbuster's board of directors comprised of directors who are independent of Viacom and Blockbuster, which is referred to in this Prospectus-Offer to Exchange as the Blockbuster special committee. The Blockbuster special committee believes that an equity capitalization of Blockbuster following the completion of this exchange offer that consists of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock will enhance the liquidity of the Blockbuster class A common stock. Viacom's conversion of Blockbuster class B common stock to Blockbuster class A common stock is governed by the amended and restated initial public offering and split-off agreement, which is referred to in this Prospectus-Offer to Exchange as the *IPO agreement*. See the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 106.

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Q: Will I receive a premium for my Viacom shares?

A: Shares of Blockbuster class A common stock are traded on the New York Stock Exchange. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing price for the Blockbuster class A common stock was \$7.90. There is currently no trading market for Blockbuster class B common stock, and neither Viacom nor Blockbuster can assure you that one will develop or be sustained after this exchange offer. In addition, neither Viacom nor Blockbuster can predict the prices at which Blockbuster class A or class B common stock will trade after this exchange offer. Shares of Viacom class A and class B common stock are traded on the New York Stock Exchange. On September 7, 2004, the last New York Stock Exchange trading day before the commencement of this exchange offer, the closing price for the Viacom class A and class B common stock was \$34.60 and \$34.13, respectively. Whether Viacom stockholders participating in this exchange offer will receive a premium for their shares of Viacom common stock will depend on the prices for shares of Viacom class A or class B common stock and Blockbuster class A common stock at the expiration date of this exchange offer. Since the market prices of shares of Viacom class A and class B common stock and Blockbuster class A common stock fluctuate, Viacom cannot predict the prices at which shares of Viacom class A or class B common stock and Blockbuster class A common stock will be trading at the expiration date of this exchange offer, and, therefore, cannot predict whether stockholders who participate in this exchange offer will receive a premium for their shares of Viacom class A or class B common stock, or, if they do, the amount of such premium.

Q: Are there any conditions to Viacom's obligation to complete this exchange offer?

A: Yes. Viacom is not required to complete this exchange offer unless the conditions beginning on page 79 are satisfied or waived prior to the expiration of this exchange offer. For example, Viacom is not required to complete this exchange offer unless at least 16,776,699 shares of Viacom class A and class B common stock are tendered so that Viacom can exchange at least 60% of the shares of Blockbuster class B common stock and converted class A common stock that Viacom owns. The minimum number of shares of Viacom class A and class B common stock that must be tendered is referred to in this Prospectus-Offer to Exchange as the minimum amount. Viacom may waive any or all of the conditions to this exchange offer, including the requirement that the minimum amount of shares of Viacom class A and class B common stock be tendered. Blockbuster has no right to waive any of the conditions to this exchange offer. However, Viacom has certain contractual obligations with Blockbuster with respect to the disposition of its Blockbuster class B common stock and converted class A common stock even if the minimum amount condition has not been satisfied, as described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transaction Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement beginning on page 106.

Q: What happens if more than the minimum amount of shares of Viacom common stock is tendered, but not enough are tendered to allow Viacom to exchange all of the shares of Blockbuster class B common stock and converted class A common stock it owns?

A: In this case, as soon as practicable following the completion of this exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class B common stock and converted class A common stock (if any), except that once Viacom has so distributed more than 80% of the total voting power of Blockbuster in the aggregate in this exchange offer and any 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 Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the adjustment described in the section entitled Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-

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Off Agreement beginning on page 106. This spin-off is referred to in this Prospectus-Offer to Exchange as the spin-off.

Q: What happens if more than 27,961,165 shares of Viacom common stock are tendered?

A: If more than 27,961,165 shares of Viacom common stock are tendered in the aggregate, all shares of Viacom common stock that are properly tendered will be accepted for exchange on a pro rata basis in proportion to the number of shares tendered. This is referred to in this Prospectus-Offer to Exchange as proration. An exception to proration is that stockholders who beneficially own odd-lots, that is, fewer than 100 shares of either class of Viacom common stock outside of a Viacom or Blockbuster employee benefit plan, may elect that such odd-lot of Viacom class A or class B common stock not be subject to proration. For instance, if you beneficially own 100 shares of Viacom class A common stock and 50 shares of Viacom class B common stock, you may only elect that your odd-lot of 50 shares of Viacom class B common stock not be subject to proration. Proration for each tendering stockholder will be based on the number of shares of Viacom class A or class B common stock tendered by that stockholder in this exchange offer, and not on that stockholder's aggregate ownership of Viacom. Any shares of Viacom common stock not accepted for exchange as a result of proration will be returned to tendering stockholders in certificated form. Viacom will announce its preliminary determination of the extent to which tenders will be prorated by press release by 9:00 a.m., New York City time, on the business day following the expiration of this exchange offer. This determination is referred to in this Prospectus-Offer to Exchange as the preliminary proration factor. Viacom will announce its final determination of the extent to which tenders will be prorated by press release promptly after this determination is made. This determination is referred to in this Prospectus-Offer to Exchange as the final proration factor.

Q: When does this exchange offer expire?

A: The period during which you are permitted to tender your shares of Viacom class A or class B common stock in this exchange offer will expire at 12:00 midnight, New York City time, on October 5, 2004, unless Viacom extends the expiration of this exchange offer. If you hold shares of Viacom class A or class B common stock through a Viacom or Blockbuster employee benefit plan, for administrative reasons, you have a deadline for directing the trustee of your plan to tender shares held in your plan account that is two business days earlier than the expiration date of the exchange offer. Please refer to the special instructions to tender that are being sent to you by the trustees or administrators of these plans. You must tender your shares prior to the expiration of this exchange offer (or such earlier date as communicated to you by the trustees or administrators of the employee benefit plans) if you wish to participate in this exchange offer. Viacom also may terminate this exchange offer in the circumstances described in the section entitled The Exchange Offer Extension; Termination; Amendment beginning on page 78.

Q: Can this exchange offer be extended, and under what circumstances?

A: Yes. Viacom can extend this exchange offer at any time, in its sole discretion, and regardless of whether any condition to this exchange offer has been satisfied or waived. If Viacom extends this exchange offer, it will publicly announce by press release the extension no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Q: How many shares of Viacom common stock will be acquired by Viacom if this exchange offer is completed?

A: The number of shares of Viacom common stock that will be accepted if this exchange offer is completed is between 16,776,699 shares, which is the minimum amount, and 27,961,165 shares.

The minimum amount of Viacom class A and class B common stock that Viacom has indicated it would acquire in this exchange offer is 16,776,699 shares, or 1.0%, of Viacom common stock outstanding as of September 7, 2004. If Viacom acquires this

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minimum amount, it will exchange 43,200,000 shares, or 60%, of the Blockbuster class B common stock being offered in this exchange offer and 43,200,000 shares, or 60%, of the converted class A common stock.

The maximum amount of Viacom class A and class B common stock that Viacom could acquire in this exchange offer is 27,961,165 shares, or 1.6%, of Viacom common stock outstanding as of September 7, 2004. If Viacom acquires this maximum amount, it will exchange all of the Blockbuster class B common stock and converted class A common stock that it owns.

Q: Does Viacom own any shares of Blockbuster class A common stock other than the converted class A common stock?

A: Yes. In addition to the converted class A common stock, Viacom owns approximately 3.6 million shares, or approximately 9.7%, of Blockbuster class A common stock outstanding as of July 31, 2004, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of this exchange offer by contributing these shares of Blockbuster class A common stock to the Viacom Pension Plan. Pursuant to an amended and restated registration rights agreement between Blockbuster and Viacom, which is referred to in this Prospectus-Offer to Exchange as the registration rights agreement, Blockbuster has filed a shelf registration statement on Form S-3 in order to facilitate the public resale of these shares by the Viacom Pension Plan.

Q: Is National Amusements, Inc. participating in this exchange offer?

A: No. National Amusements, Inc., the controlling stockholder of Viacom, will not participate in this exchange offer. National Amusements, Inc. is referred to in this Prospectus-Offer to Exchange as National Amusements. As of July 31, 2004, National Amusements beneficially owned shares of Viacom class A common stock representing approximately 71% of the voting power of all classes of Viacom stock, and approximately 11% of Viacom class A and class B common stock on a combined basis. The decision not to participate is consistent with the fact that National Amusements has never sold or otherwise disposed of any of its holdings in Viacom. Mr. Sumner M. Redstone, the controlling stockholder of National Amusements and the chairman of the board of directors and chief executive officer of Viacom, is committed to focusing his managerial and financial resources on developing and growing the core businesses of Viacom.

Q: How do I decide whether to participate in this exchange offer?

A: Whether you should participate in this exchange offer depends on many factors. You should examine carefully your specific financial position, plans and needs before you decide whether to participate. Viacom encourages you to consider, among other things:

your view of the relative values of a single share of Viacom class A or class B common stock and the shares of Blockbuster class A and class B common stock you will receive in this exchange offer; and

your individual investment strategy with regard to these stocks.

In addition, you should consider all of the factors described in the section entitled Risk Factors beginning on page 31. None of Viacom, Blockbuster, or any of their respective directors or officers or the co-dealer managers makes any recommendation as to whether you should tender your shares of Viacom class A or class B common stock. You must make your own decision after carefully reading this

document and consulting with your advisors based on your own financial position and requirements. It is strongly encouraged that you read this document very carefully.

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Q: How do I participate in this exchange offer?

A: The procedures you must follow to participate in this exchange offer will depend on whether you hold your shares of Viacom class A or class B common stock in certificated form, through a bank or broker, in the Viacom Dividend Reinvestment Plan or through a Viacom or Blockbuster employee benefit plan. The Viacom Dividend Reinvestment Plan is referred to as the Viacom DRP in this Prospectus-Offer to Exchange. For specific instructions about how to participate, see the section entitled The Exchange Offer Procedures for Tendering beginning on page 73.

Q: If I hold shares as a participant in a Viacom or Blockbuster employee benefit plan eligible to participate in this exchange offer, how do I participate?

A: If you hold Viacom class A or class B common stock as a participant in a Viacom or Blockbuster employee benefit plan, you should follow the special instructions that are being sent to you by the plan trustees or administrators. You should not use the letter of transmittal to direct the tender of Viacom class A or class B common stock held in any such employee benefit plans. Instead, you may direct the plan trustee to tender all, some or none of the Viacom class A or class B common stock in your employee benefit plan account by following the special instructions that are being sent to you by the plan trustees or administrators. However, you will not be eligible to tender in this exchange offer any of the shares allocated to your employer matching contribution account in the Viacom 401(k) Plan or the Viacom Employee Savings Plan if your employer matching contribution account is not 100% vested as of the deadline for directing the trustee of your plan to tender shares held in your plan account. See the section entitled The Exchange Offer Procedures for Tendering beginning on page 73 for a list of the Viacom and Blockbuster employee benefit plans eligible to participate in this exchange offer and for specific instructions on how to participate.

Q: Can I tender only a portion of my Viacom class A or class B common stock in this exchange offer?

A: Yes. You may tender all, some or none of your Viacom class A or class B common stock.

Q: What do I do if I want to retain all of my Viacom class A or class B common stock?

A: If you want to retain all of your Viacom class A or class B common stock, you do not need to take any action.

Q: Can I change my mind after I tender my Viacom class A or class B common stock?

A: Yes. You may withdraw your tendered shares at any time before this exchange offer expires. See the section entitled The Exchange Offer Withdrawal Rights beginning on page 77. If you change your mind again, you can re-tender your Viacom class A or class B common stock by following the tender procedures again prior to the expiration of this exchange offer.

Q: How soon can I expect delivery of my Blockbuster class A and class B common stock?

A: Shares of Blockbuster class A and class B common stock will be delivered by book-entry transfer as soon as practicable after acceptance of shares of Viacom common stock in this exchange offer and determination of the final proration factor, if any. See the section entitled The Exchange Offer Book-Entry Accounts on page 78.

Q: Will the Blockbuster class B common stock be listed on an exchange following the completion of this exchange offer?

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- A: Yes. Following the completion of this exchange offer, subject to providing notice of issuance to the New York Stock Exchange, Blockbuster class B common stock will be listed on the New York Stock Exchange under the symbol BBI.B.

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Q: Why is Blockbuster amending its organizational documents?

A: Following the recommendation of Blockbuster's board of directors, Blockbuster's stockholders approved certain amendments to Blockbuster's certificate of incorporation at Blockbuster's 2004 annual meeting. These amendments will be filed and become effective immediately after Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to this exchange offer. These amendments provide, among other things, that after completion of the transactions described in this Prospectus-Offer to Exchange, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled *Agreements Between Viacom and Blockbuster and Other Related Party Transactions Relationships Between Viacom and Blockbuster Initial Public Offering and Split-Off Agreement* beginning on page 106. As of the date of this Prospectus-Offer to Exchange, Viacom and Blockbuster anticipate that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. In addition, the amendments remove provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. These amendments are referred to in this Prospectus-Offer to Exchange as the *Blockbuster charter amendments*.

Blockbuster's board of directors is also amending its bylaws to remove the provisions relating to Viacom as a stockholder of Blockbuster and to add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. For a more complete description of the Blockbuster charter amendments and the amendments to Blockbuster's bylaws, see the sections entitled *Description of Capital Stock of Blockbuster* and *Comparison of Stockholder Rights* beginning on pages 135 and 143, respectively.

Q: Will the Blockbuster class B common stock be convertible into Blockbuster class A common stock following the completion of this exchange offer?

A: No. Following the effectiveness of the Blockbuster charter amendments, shares of Blockbuster class B common stock will not be convertible into shares of Blockbuster class A common stock. See the section entitled *Description of Capital Stock of Blockbuster* beginning on page 135.

Q: Do the shares of Blockbuster class A and class B common stock have different voting rights?