

BLOCKBUSTER INC
Form PRE 14A
March 27, 2009
Table of Contents

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:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Blockbuster Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Edgar Filing: BLOCKBUSTER INC - Form PRE 14A

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

April 15, 2009

Dear Blockbuster Stockholder:

You are cordially invited to attend the 2009 annual meeting of stockholders of Blockbuster Inc. on **Thursday, May 28, 2009, at 10:00 a.m.**, Central Standard Time. The meeting will be held at 1201 Elm Street, 42nd floor, Dallas, Texas 75270.

The accompanying notice of annual meeting and proxy statement describe the formal business to be transacted at the meeting, which includes:

- (1) the election of nine directors, each for a term ending on the date of our next annual meeting;
- (2) the amendment of the Blockbuster Inc. 2004 Long-Term Management Incentive Plan to increase the number of shares of Blockbuster Inc. Class A common stock available for issuance under the plan and approval of the material terms of the amended plan so that designated awards under the amended plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;
- (3) the approval of the material terms of the Blockbuster Inc. Senior Executive Annual Performance Bonus Plan so that designated awards under the plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;

- (4) the approval of the following advisory (non-binding) resolution:

RESOLVED, that the stockholders hereby ratify the compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion & Analysis).

- (5) the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal 2009.

Directors and officers of Blockbuster will be present to help host the meeting.

Please note that we are requiring a form of personal identification and, for beneficial owners, appropriate proof of ownership of our common stock to attend the annual meeting. For more information, please refer to the proxy statement.

Please refer to the proxy statement for detailed information on each of these proposals and the annual meeting. We urge you to review the materials carefully and to submit your proxy as soon as possible so that your shares will be represented at the meeting.

Thank you for your continued interest and support. I look forward to seeing you at the meeting.

Sincerely,

James W. Keyes
*Chairman of the Board and
Chief Executive Officer*

Table of Contents

BLOCKBUSTER INC.

1201 Elm Street

Dallas, Texas 75270

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 28, 2009

NOTICE IS HEREBY GIVEN that the 2009 annual meeting of stockholders of Blockbuster Inc., a Delaware corporation, will be held at 1201 Elm Street, 42nd floor, Dallas, Texas 75270, on Thursday, May 28, 2009, at 10:00 a.m., Central Standard Time, for the following purposes:

- (1) To elect nine directors;
- (2) To approve an amendment to the Blockbuster Inc. 2004 Long-Term Management Incentive Plan to increase the number of shares of Blockbuster Inc. Class A common stock available for issuance under the plan and approve the material terms of the amended plan so that designated awards under the amended plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;
- (3) To approve the material terms of the Blockbuster Inc. Senior Executive Annual Performance Bonus Plan so that designated awards under the plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;

- (4) To approve the following advisory (non-binding) resolution:

RESOLVED, that the stockholders hereby ratify the compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion & Analysis).

- (5) To ratify the appointment of PricewaterhouseCoopers LLP as Blockbuster's independent registered public accounting firm for fiscal 2009; and

- (6) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The close of business on April 3, 2009 has been fixed as the record date for determining stockholders entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

We are pleased to be utilizing the Securities and Exchange Commission's notice and access rule that allows companies to offer proxy materials to stockholders primarily over the Internet. We believe that this process should expedite our stockholders' receipt of proxy materials and lower the costs of our annual meeting. On April 15, 2009, we mailed our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our 2009 proxy statement and 2008 annual report to stockholders and how to vote via the Internet. The notice also included instructions on how to receive a paper copy of the annual meeting materials, including the notice of annual meeting, proxy statement and proxy card. If you received your annual meeting materials by mail, the notice of annual meeting, proxy statement and proxy card were enclosed. If you received your annual meeting materials via e-mail, the e-mail contained voting instructions and links to the proxy statement and annual report to stockholders, which are available on the Internet.

Your vote is important. We urge you to review these materials carefully and to vote by Internet, telephone or proxy card as promptly as possible.

Edgar Filing: BLOCKBUSTER INC - Form PRE 14A

By Order of the Board of Directors,

Eric H. Peterson
*Executive Vice President,
General Counsel and Secretary*

Dallas, Texas

April 15, 2009

Table of Contents**TABLE OF CONTENTS**

	Page
<u>GENERAL INFORMATION</u>	1
<u>2009 Annual Meeting Date and Location</u>	1
<u>Delivery of Proxy Materials</u>	1
<u>Voting by Class A Common Stockholders and Class B Common Stockholders</u>	2
<u>Annual Meeting Admission</u>	5
<u>Solicitation Expenses</u>	5
<u>Copies of the Annual Report</u>	5
<u>CORPORATE GOVERNANCE</u>	6
<u>Governance Overview</u>	6
<u>Board of Directors and Board Committees</u>	6
<u>Director Nomination Process</u>	8
<u>Related Party Transaction and Director Independence</u>	8
<u>Executive Sessions and the Presiding Director</u>	10
<u>Communications with Non-Management Directors and Other Board Communications</u>	10
<u>Audit Committee Financial Experts and Financial Literacy</u>	11
<u>Policies on Business Conduct and Ethics</u>	11
<u>Director Attendance at Annual Meetings</u>	11
<u>Processes and Procedures for Determining Executive and Director Compensation</u>	12
<u>Management Certifications</u>	13
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	14
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	20
<u>EXECUTIVE OFFICER AND DIRECTOR COMPENSATION</u>	21
<u>Compensation Discussion & Analysis</u>	21
<u>Compensation Committee Report</u>	27
<u>Summary Compensation Table</u>	28
<u>Fiscal 2008 Grants of Plan-Based Awards</u>	30
<u>Outstanding Equity Awards at 2008 Fiscal Year-End</u>	31
<u>Employment Contracts and Potential Payments Upon Termination or Change-in-Control</u>	36
<u>Fiscal 2008 Director Compensation</u>	40
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	43
<u>AUDIT COMMITTEE AND INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	44
<u>Audit Committee Report</u>	44
<u>Audit and Non-Audit Fees</u>	44
<u>Pre-Approval Policies and Procedures</u>	45
<u>PROPOSAL I ELECTION OF DIRECTORS</u>	46
<u>Nominees</u>	46
<u>Board Recommendation on Proposal</u>	46
<u>Backgrounds of Directors</u>	46
<u>PROPOSAL II APPROVAL OF (1) THE SECOND AMENDMENT TO THE 2004 PLAN AND (2) MATERIAL PLAN TERMS FOR PURPOSES OF COMPLYING WITH THE REQUIREMENTS OF SECTION 162(M) OF THE INTERNAL REVENUE CODE</u>	49
<u>Purpose of the Proposal</u>	49
<u>Summary of the Amended Plan</u>	50
<u>Summary of Certain Federal Income Tax Consequences</u>	56
<u>Incentive Stock Options; Non-qualified Stock Options; Stock Appreciation Rights</u>	56

Table of Contents

<u>Restricted Shares; Unrestricted Shares; Restricted Share Units; Phantom Shares</u>	58
<u>Tax Code Limitations on Deductibility</u>	58
<u>New Plan Benefits under the Amended Plan</u>	58
<u>Prior Issuances of Awards under the 2004 Plan</u>	60
<u>PROPOSAL III APPROVAL OF THE MATERIAL TERMS OF THE SENIOR BONUS PLAN FOR PURPOSES OF COMPLYING WITH THE REQUIREMENTS OF SECTION 162(M) OF THE INTERNAL REVENUE CODE</u>	61
<u>Purpose of the Proposal</u>	61
<u>Summary of the Senior Bonus Plan</u>	61
<u>New Plan Benefits under the Senior Bonus Plan</u>	63
<u>PROPOSAL IV ANNUAL ADVISORY RESOLUTION OF STOCKHOLDERS TO RATIFY NAMED EXECUTIVE OFFICER COMPENSATION</u>	64
<u>Description of Proposal</u>	64
<u>Board Recommendation on Proposal</u>	64
<u>PROPOSAL V RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITORS</u>	65
<u>Description of Proposal</u>	65
<u>Board Recommendation on Proposal</u>	65
<u>OTHER BUSINESS</u>	66
<u>SUBMISSION OF STOCKHOLDER PROPOSALS FOR 2010 ANNUAL MEETING</u>	66

Table of Contents

BLOCKBUSTER INC.

1201 Elm Street

Dallas, Texas 75270

PROXY STATEMENT

FOR

ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 28, 2009

GENERAL INFORMATION

This proxy statement is being furnished to you in connection with the solicitation of proxies by the Board of Directors of Blockbuster Inc. (the Board) for use at our 2009 annual meeting. In this proxy statement, references to Blockbuster, the Company, we, us, our and similar expressions refer to Blockbuster Inc., unless the context of a particular reference provides otherwise.

2009 Annual Meeting Date and Location

Blockbuster's 2009 annual meeting of stockholders will be held at 1201 Elm Street, 4th floor, Dallas, Texas 75270, on Thursday, May 28, 2009, at 10:00 a.m., Central Standard Time, or at such other time and place to which the meeting may be adjourned. References in this proxy statement to the annual meeting also refer to any adjournments or changes in location of the meeting, to the extent applicable.

Delivery of Proxy Materials

We made these materials available to you over the Internet or, upon your request, have delivered paper versions of these materials to you by mail, in connection with the solicitation of proxies by the Board for the 2009 annual meeting of stockholders. Stockholders may request to receive proxy materials in paper form by mail or electronically by e-mail during the voting period. Choosing to receive your future proxy materials by e-mail will save us the cost of printing and mailing documents to you. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

On or about April 15, 2009, we mailed a Notice of Internet Availability of Proxy Materials to stockholders containing instructions on how to access the proxy statement and vote online. Each registered stockholder (you own shares in your own name on the books of our transfer agent) received one copy of each such Notice per account even if at the same address, while most banks and brokers delivered only one copy of such Notice to consenting street-name stockholders (you own shares beneficially in the name of a bank, broker or other holder of record on the books of our transfer agent) who share the same address. This procedure reduces our printing and distribution costs. Those who wish to receive separate copies may do so by contacting their bank, broker or other holder of record. Similarly, most street-name stockholders who received multiple copies of the Notice at a single address may request that only a single copy be sent to them in the future by contacting their bank, broker or other nominee. In the alternative, most street-name stockholders may give instructions to receive separate copies or discontinue multiple mailings by contacting the third party that mails annual meeting materials for most banks and brokers by writing to Householding Department, Broadridge, 51 Mercedes Way, Edgewood, New York 11717, or telephoning (800) 542-1061. Your instructions must include the name of your bank or broker and your account number.

Table of Contents

Voting by Class A Common Stockholders and Class B Common Stockholders

Stockholders Entitled to Vote

We have two classes of common stock outstanding: (1) Class A common stock, which is entitled to one vote per share; and (2) Class B common stock, which is entitled to two votes per share.

The holders of Class A common stock and Class B common stock will vote together as a single class on the matters to be considered at the annual meeting, and their votes will be counted and totaled together. The record date for determining the Class A common stockholders and Class B common stockholders entitled to notice of and to vote at the meeting and any adjournment thereof was the close of business on April 3, 2009, at which time we had issued and outstanding [_____] shares of Class A common stock and 72,000,000 shares of Class B common stock. Please refer to *Security Ownership of Certain Beneficial Owners and Management* for information about Class A common stock and Class B common stock beneficially owned by our directors and executive officers as of the date indicated in such section. 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 Class A common stockholder or Class B common stockholder, for any purpose germane to the meeting, during ordinary business hours at Blockbuster's corporate headquarters located at 1201 Elm Street, Dallas, Texas 75270.

Voting of Proxies By Management Proxy Holders

The Board has appointed Mr. James W. Keyes, Chairman of the Board and Chief Executive Officer, Mr. Thomas M. Casey, Executive Vice President and Chief Financial Officer, and Mr. Eric H. Peterson, Executive Vice President, General Counsel and Secretary, as the management proxy holders for the annual meeting. Your shares will be voted in accordance with the instructions on the proxy card you submit by mail, or the instructions provided for any proxy submitted by Internet or telephone, as applicable. For stockholders who have their shares voted by duly submitting a proxy by mail, Internet or telephone, the management proxy holders will vote all shares represented by such valid proxies as follows, unless a stockholder appropriately specifies otherwise:

Proposal I (Election of directors) **FOR** the election of each of the persons named under *Proposal I Election of Directors* as nominees for election as directors;

Proposal II (Amendment of the 2004 Long-Term Management Incentive Plan and approval of the material terms of same) **FOR** the amendment of the Blockbuster Inc. 2004 Long-Term Management Incentive Plan to increase the number of shares of Blockbuster Inc. Class A common stock available for issuance under the plan and approval of the material terms of the amended plan so that designated awards under the amended plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;

Proposal III (Approval of the material terms of the Senior Executive Annual Performance Bonus Plan) **FOR** approval of the material terms of the Blockbuster Inc. Senior Executive Annual Performance Bonus Plan so that designated awards under the plan may qualify for deductibility under Section 162(m) of the Internal Revenue Code;

Proposal IV (Advisory resolution on named executive officer compensation) **FOR** the following advisory (non-binding) resolution: RESOLVED, that the stockholders hereby ratify the compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion & Analysis).

Proposal V (Ratification of the appointment of independent auditors) **FOR** the proposal to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm (independent auditors) for fiscal 2009.

Table of Contents

As of the date of printing this proxy statement, the Board is not aware of any other business or nominee to be presented or voted upon at the annual meeting. If any other business or nominee is properly presented, the proxies solicited by the Board will provide the management proxy holders with the authority to vote on those matters and nominees in accordance with such persons' discretion. Where a stockholder has appropriately specified how a proxy is to be voted, it will be voted by the management proxy holders in accordance with the specification.

Quorum; Required Votes

The presence at the meeting, in person or by proxy, of the stockholders entitled to cast at least a majority of the votes that all Class A common stockholders and Class B common 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 is not present, the meeting may be adjourned from time to time until a quorum is obtained.

Under the rules of the New York Stock Exchange (NYSE), brokers holding shares of record for a customer have the discretionary authority to vote on some matters if the brokers do not receive timely instructions from the customer regarding how the customer wants the shares voted. There are also non-discretionary matters for which brokers do not have discretionary authority to vote unless they 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, a broker non-vote results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters. For proposals I, IV and V to be voted on at our annual meeting, brokers will have discretionary authority in the absence of timely instructions from their customers.

Proposal I (Election of directors) To be elected, each nominee for election as a director must receive the affirmative vote of a plurality of the votes of the shares of Class A common stock and Class B common stock, voting as a single class, present in person or represented by proxy at the meeting and entitled to vote on such proposal. This means that director nominees with the most votes are elected. Votes may be cast in favor of or withheld from the election of each nominee. Votes that are withheld from a director's election will be counted toward a quorum, but will not affect the outcome of the vote on the election of such director.

Proposal II (Amendment of the 2004 Long-Term Management Incentive Plan and approval of the material terms of same) The affirmative vote of the holders of a majority of the votes of the Class A common stock and Class B common stock, voting as a single class, present in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions may be specified on this proposal and will have the same effect as a vote against this proposal. Because brokers do not have discretionary authority to vote on this proposal, broker non-votes will not have an effect on the outcome of the vote on this proposal.

Proposal III (Approval of the material terms of the Senior Executive Annual Performance Bonus Plan) The affirmative vote of the holders of a majority of the votes of the Class A common stock and Class B common stock, voting as a single class, present in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions may be specified on this proposal and will have the same effect as a vote against this proposal. Because brokers do not have discretionary authority to vote on this proposal, broker non-votes will not have an effect on the outcome of the vote on this proposal.

Proposal IV (Approval of an advisory proposal on named executive officer compensation) The affirmative vote of the holders of a majority of the votes of the Class A common stock and Class B common stock, voting as a single class, present in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions may be specified on this proposal and will have the same effect as a vote against this proposal. Brokers will have discretionary authority to vote on this proposal. The Board will take stockholder support for this proposal into account in evaluating and setting future compensation for our named executive officers.

Table of Contents

Proposal V (Ratification of the appointment of independent auditors) Ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for fiscal 2009 requires the affirmative vote of the holders of a majority of the votes of the Class A common stock and Class B common stock, voting as a single class, present in person or represented by proxy at the meeting and entitled to vote on such proposal. Abstentions may be specified on this proposal and will have the same effect as a vote against this proposal. Brokers will have discretionary authority to vote on this proposal.

Voting Procedures

Registered Stockholders: Registered stockholders may vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Internet. You may submit a proxy electronically on the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials. Please have the Notice of Internet Availability of Proxy Materials in hand when you log onto the web site. Internet voting facilities will be available 24 hours a day and will close at 11:59 p.m., Central Standard Time, on May 27, 2009 unless otherwise noted with respect to shares held through our 401(k) plan.

In Person. You may vote in person at the annual meeting by completing a ballot; however, attending the meeting without completing a ballot will not count as a vote.

By Telephone. If you request paper copies of the proxy materials by mail, you may submit a proxy by telephone (from U.S. and Canada only) using the toll-free number listed on the proxy card. Please have your proxy card in hand when you call. Telephone voting facilities will be available 24 hours a day and will close at 11:59 p.m., Central Standard Time, on May 27, 2009.

By Mail. If you request paper copies of the proxy materials by mail, you may indicate your vote by completing, signing and dating your proxy card and returning it in the business reply envelope.

Street-name Stockholders: Street-name stockholders may generally vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Mail. If you request paper copies of the proxy materials by mail, you may indicate your vote by completing, signing and dating your proxy card and returning it in the business reply envelope.

By Methods Listed on Voting Instruction Form. Please refer to your voting instruction form or other information forwarded by your bank, broker or other holder of record to determine whether you may submit a proxy electronically on the Internet or by telephone, following the instructions on the voting instruction form or other information provided by the record holder.

In Person with a Proxy from the Record Holder. A street-name stockholder who wishes to vote in person at the meeting will need to obtain a legal proxy from their bank, broker or other holder of record. Please consult the voting instruction form or other information sent to you by your bank, broker or other holder of record to determine how to obtain a legal proxy in order to vote in person at the annual meeting.

Revoking Your Proxy

If you are a registered stockholder, you may revoke your proxy at any time before the shares are voted at the meeting by:

timely submitting a proxy with new voting instructions using the Internet or telephone voting system;

voting in person at the meeting by completing a ballot; however, attending the meeting without completing a ballot will not revoke any previously submitted proxy;

Table of Contents

timely delivery of a valid, later-dated executed proxy card; or

filing an instrument of revocation received by the Secretary of Blockbuster Inc. at 1201 Elm Street, Dallas, Texas 75270, by 6:00 p.m., Central Standard Time, on, May 27, 2009.

If you are a street-name stockholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or other holder of record in accordance with that entity's procedures.

Annual Meeting Admission

If you wish to attend the annual meeting in person, you must present a form of personal identification. If you are a beneficial owner of Blockbuster Class A common stock or Class B common stock that is held of record by a bank, broker or other holder of record, you will also need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank, broker or other holder of record are examples of proof of ownership. **No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.**

Solicitation Expenses

We will bear all costs incurred in the solicitation of proxies by our Board. In addition to solicitation by mail, our directors, officers and employees may solicit proxies personally or by telephone, e-mail, facsimile or other means, without additional compensation. We have not retained the services of a proxy solicitor in connection with our annual meeting. However, we may make arrangements with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of shares of Class A common stock and Class B common stock held by such persons, and we may reimburse these brokerage houses and other custodians, nominees and fiduciaries for reasonable expenses incurred in connection therewith.

Copies of the Annual Report

A copy of our annual report on Form 10-K for the fiscal year ended January 4, 2009, including the financial statements and the financial statement schedules, if any, but not including exhibits, will be furnished at no charge to each person to whom a Notice of Internet Delivery of Proxy Materials is delivered upon the written request of such person addressed to Blockbuster Inc., Attention: Investor Relations, 1201 Elm Street, Dallas, Texas 75270.

Table of Contents

CORPORATE GOVERNANCE

Governance Overview

Our Board has adopted corporate governance guidelines as part of its continuing effort to enhance corporate governance at Blockbuster and to communicate Blockbuster's governance policies to stockholders and other interested parties. The guidelines address a variety of governance topics, including:

director independence and qualification standards,

responsibilities of directors,

Board meetings,

executive sessions of non-management directors,

Board committees,

Board access to management and outside advisors,

director orientation and continuing education,

non-employee director compensation,

evaluation and succession planning for our Chief Executive Officer,

periodic self-evaluations of Board and committee effectiveness and functioning,

service by directors on other boards, and

stockholder relations.

Our Corporate Governance Guidelines, along with our Business Conduct Statement, Supplemental Code of Ethics for Blockbuster's Senior Financial Officers, charters of our standing Board committees and our second amended and restated certificate of incorporation and amended and restated bylaws, provide the basic framework for the governance of Blockbuster. Our certificate of incorporation and bylaws are filed as exhibits to our public filings with the SEC. These filings can be accessed free of charge from our website at www.blockbuster.com under the link for Investor Relations. The remaining documents referenced above are also available free of charge on our website under the link for

Investor Relations. Copies of these documents will be provided to stockholders, without charge, upon written request to Blockbuster Inc., Attention: Investor Relations, 1201 Elm Street, Dallas, Texas 75270.

Edgar Filing: BLOCKBUSTER INC - Form PRE 14A

From time to time, these governance documents may be revised in response to changing regulatory requirements, evolving best practices and the concerns of our stockholders and other interested parties. For example, our Board recently approved an amendment to our Corporate Governance Guidelines whereby in the event that our stockholders do not approve the non-binding resolution contained in Proposal IV of this proxy statement, our Board will establish a committee of directors to meet with stockholders to address their concerns with respect to the compensation of our named executive officers. We encourage you to check our website periodically for the most recent versions of our governance documents.

Board of Directors and Board Committees

Our business is managed under the direction of our Board. The Board meets on a regularly scheduled basis to review significant developments affecting our company, to act on matters requiring approval by the Board and to otherwise fulfill its responsibilities. It also holds special meetings when an important matter requires action or review by the Board between regularly scheduled meetings. The Board met nine times and acted by unanimous written consent three times during fiscal 2008. Each director participated in at least 75% of the aggregate number of meetings of the Board and applicable committee meetings held during fiscal 2008.

Table of Contents

The Board has separately designated standing audit, nominating/corporate governance and compensation committees. The following table provides Board and committee membership and meeting information for each of the Board's standing committees:

Director	Independent (1)	Audit Committee	Nominating / Corporate Governance Committee	Compensation Committee
Edward Bleier	Yes		Member	
Robert A. Bowman	Yes	Chair (2)		
Jackie M. Clegg	Yes	Member (2)	Chair	
James W. Crystal	Yes	Member		Member
Gary J. Fernandes	Yes			Chair
Jules Haimovitz	Yes			Member
Carl C. Icahn	Yes		Member	
James W. Keyes	No			
Strauss Zelnick	No			
	Number of Meetings in 2008	10	3	6
	Number of Written Consents in 2008			1

(1) The Board has determined that the director is independent as described below under Related Party Transaction and Director Independence.

(2) The Board has determined that the director is an audit committee financial expert as described below under Audit Committee Financial Experts and Financial Literacy.

A brief description of the principal functions of each of the Board's three standing committees follows. Notwithstanding the following, the Board retains the right to exercise the powers of any committee or to appoint special committees and may do so from time to time. For additional information, please refer to the committee charters that are available on our website at www.blockbuster.com.

Audit Committee The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities relating to (1) the quality and integrity of our financial reports and other financial information provided by us to our stockholders, the public and others; (2) our compliance with legal and regulatory requirements; (3) our independent auditors' qualifications, independence and performance; and (4) the performance of our internal audit function, including our systems of internal controls.

Compensation Committee The primary functions of the Compensation Committee are to (1) assist management and the Board in defining and overseeing our general compensation practices; (2) review and approve, or make recommendations to the Board or the other independent directors with respect to, as the case may be, the compensation, including equity grants, of our Chief Executive Officer, other executive officers and any other employees or categories of employees as directed by the Board; (3) review and discuss our Compensation Discussion & Analysis with management; and (4) produce the Compensation Committee's report required by the SEC for inclusion in our proxy statement.

Nominating/Corporate Governance Committee The primary functions of the Nominating/Corporate Governance Committee are to (1) assist the Board in identifying individuals qualified to become members of the Board; (2) recommend to the Board the director nominees for election at the next annual meeting of stockholders or for appointment to fill any vacancy on the Board; (3) monitor significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies; (4) review the criteria to be used in connection with the self-evaluations of the Board and each of its committees and oversee the evaluation of the Board and management; and (5) develop and recommend to the Board and administer our Corporate Governance Guidelines.

Table of Contents

Director Nomination Process

The Nominating/Corporate Governance Committee is responsible for managing the process for nomination of new directors. The Nominating/Corporate Governance Committee may identify potential candidates for first-time nomination as a director using a variety of sources recommendations from our management, current Board members, stockholders or contacts in communities served by Blockbuster, or by conducting a formal search using an outside search firm selected and engaged by the Nominating/Corporate Governance Committee. Following the identification of a potential director nominee, the Nominating/Corporate Governance Committee commences an inquiry to obtain sufficient information on the background of a potential new director nominee. Included in this inquiry is an initial review of the candidate with respect to the following factors: (1) whether the individual meets the Board's minimum qualifications for first-time director nominees; (2) whether the individual would be considered independent under NYSE and SEC rules; and (3) whether the individual would meet any additional requirements imposed by law or regulation on the members of the Audit and/or Compensation Committees of the Board.

The Nominating/Corporate Governance Committee evaluates candidates for director nominees in the context of the current composition of the Board, 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's anticipated needs. The Nominating/Corporate Governance Committee believes that, at a minimum, all directors, as well as any nominee recommended by the Nominating/Corporate Governance Committee, should have (1) high personal and professional integrity; (2) the ability to read and understand basic financial statements; (3) the ability to exercise sound business judgment; (4) an understanding of Blockbuster's business and the industry in which we operate; (5) a commitment to enhancing stockholder value; and (6) the willingness and sufficient time to carry out their responsibilities as a member of the Board. In addition, at least one member of the Board should have accounting or related financial management expertise, as determined in the Board's business judgment. The Nominating/Corporate Governance Committee will consider potential nominees recommended by our stockholders for the Nominating/Corporate Governance Committee's consideration taking into account the same considerations as are taken into account for other potential nominees. Stockholders may recommend candidates by writing to the Nominating/Corporate Governance Committee in care of Blockbuster's Secretary at Blockbuster Inc., 1201 Elm Street, Dallas, Texas 75270. Our bylaws provide additional procedures and requirements for stockholders wishing to nominate a director for election as part of the official business to be conducted at an annual stockholders meeting, as described further under Submission of Stockholder Proposals for 2010 Annual Meeting.

Assuming a satisfactory conclusion to the Nominating/Corporate Governance Committee's review and evaluation process, the Nominating/Corporate Governance Committee presents the candidate's name to the Board for nomination for election as a director and/or inclusion in our proxy statement.

Related Party Transaction and Director Independence

Annual written questionnaires are used to gather input to assist the Nominating/Corporate Governance Committee and the Board in their determinations of the independence of the non-employee directors. In addition, our Corporate Governance Guidelines require directors to notify the Chair of the Nominating/Corporate Governance Committee (or, in the case of the Chair of the Nominating/Corporate Governance Committee, another member of such Committee), as soon as reasonably practicable, in the event that such director's personal circumstances change or are anticipated to change in a manner that may affect the Board's evaluation of such director's independence.

Based on the foregoing and on such other due consideration and diligence as it deemed appropriate, the Nominating/Corporate Governance Committee presented its findings to the Board on the independence of (1) Edward Bleier; (2) Robert A. Bowman; (3) Jackie M. Clegg; (4) James W. Crystal; (5) Gary J. Fernandes; (6) Jules Haimovitz; (7) Carl C. Icahn; and (8) Strauss Zelnick. The Board determined that, other than in their capacity as directors, none of these non-employee directors, other than Mr. Zelnick, had a material relationship with Blockbuster, either directly or as a partner, shareholder or officer of an organization that has a relationship with Blockbuster. The Board further determined that, other than Mr. Zelnick, (1) all such non-employee directors are independent under applicable NYSE listing standards and (2) all such non-employee directors also satisfy the additional audit committee independence standards of Rule 10A-3 of the SEC other than Mr. Icahn because of his reported beneficial ownership in Blockbuster's equity securities in excess of 10%.

Table of Contents

On March 29, 2007, Mr. Zelnick was appointed chairman of the board of directors of Take-Two Interactive Software, Inc. (Take-Two), a global publisher, developer and distributor of interactive games software, hardware and accessories and a party to considerable commercial transactions with Blockbuster. On February 15, 2008, Take-Two announced the appointment of Mr. Zelnick as executive chairman. In addition, ZelnickMedia Corporation (ZelnickMedia), of which Mr. Zelnick is a founder and principal owner, entered into a management agreement with Take-Two on March 30, 2007, as amended on July 26, 2007 and February 14, 2008, pursuant to which ZelnickMedia provides financial and management consulting services to Take-Two. Mr. Zelnick is entitled during the term of the management agreement to serve as executive chairman of Take-Two s board of directors and will also have the authority during such term to hire and/or terminate the chief executive officer and chief financial officer of Take-Two, subject to the approval of Take-Two s compensation committee. Also during the term of the management agreement, ZelnickMedia will receive a monthly management fee of \$208,333, an annual bonus of up to \$2,500,000 upon the achievement by Take-Two of certain performance thresholds, an option to purchase a number of shares of Take-Two equal to 2.5% of the outstanding common stock of Take-Two on a fully diluted basis (which vest in equal monthly installments over three years) and shares of restricted common stock of Take-Two. Blockbuster and its subsidiaries paid Take-Two approximately \$47.6 million for fiscal 2008 pursuant to Blockbuster s commercial arrangements with Take-Two.

The Board has determined that, based on Mr. Zelnick s and ZelnickMedia s relationships with Take-Two, Blockbuster s transactions with Take-Two constitute related party transactions under applicable rules of the SEC. In accordance with the Board s policies and procedures relating to its review, approval or ratification of related party transactions, and taking into account various factors set forth in such policies and procedures (in each case as more fully described herein), the disinterested members of the Board have ratified and approved Blockbuster s transactions with Take-Two.

As a result of Mr. Zelnick s and ZelnickMedia s relationships with Take-Two, the Board also has determined that Mr. Zelnick does not qualify as an independent director of the Board under applicable NYSE standards.

In addition, on April 18, 2007, Mr. Bowman was appointed to the board of directors of Take-Two. The Board determined that Mr. Bowman s appointment to the Take-Two board of directors does not impair his independence under applicable NYSE standards.

Pursuant to Blockbuster s employment agreement with Mr. Keyes, Blockbuster agreed to reimburse Mr. Keyes for specified expenses related to Mr. Keyes use of his personal aircraft for travel related to Blockbuster s business. During fiscal 2008, Blockbuster paid an aggregate of \$225,446 related to use by Mr. Keyes of his personal aircraft for travel related to Blockbuster s business to (a) a third party charter management company (in which Mr. Keyes has no ownership interest) with which Blockbuster has made arrangements for the use by Mr. Keyes of Mr. Keyes personal aircraft for travel related to Blockbuster s business and (b) an entity or entities controlled by Mr. Keyes.

In making its most recent independence determinations, the Board considered certain relationships that it deemed not to be material. Mr. Fernandes holds a general partner interest and a limited partner interest in two real estate limited partnerships that each lease one retail building to Blockbuster. The Board determined that Mr. Fernandes relationship was not material, as it did during 2005, 2006, 2007 and 2008 when considering this same relationship, because the transactions between Blockbuster and the limited partnerships were at arms length, Mr. Fernandes had no direct involvement with any such transactions, and the transactions in question involved only two of Blockbuster s thousands of domestic leases.

The Board also considered Blockbuster s arrangement with Icahn Sourcing, LLC (Icahn Sourcing), an entity formed and controlled by Mr. Icahn to leverage the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property. Blockbuster is a member of Icahn Sourcing s buying group and, as such, is afforded the opportunity to purchase goods, services and property from vendors with whom Icahn Sourcing has negotiated rates and terms. Icahn Sourcing does not guarantee that Blockbuster will purchase any goods, services or property from any such vendors, and Blockbuster is under no obligation to do so. Blockbuster does not pay Icahn Sourcing any fees or other amounts with respect to the buying group arrangement, and Icahn Sourcing does not receive any fees or other amounts from the vendors if Blockbuster purchases goods, services or property from the vendors. In 2008, as a member of the buying group, we entered into an agreement for corporate travel coordination services and another agreement for selected photocopy products and services, in each instance upon terms and conditions that we believe were more advantageous to us than would have otherwise been available had we not been a member of the buying group. Otherwise, to date, Blockbuster has not purchased any other goods, services or property as a member of the buying group, but it may do so in the future at prices and on terms that Blockbuster believes are more favorable than those that would be achieved on a stand-alone basis. Additionally, during fiscal 2008, in connection with the outsourcing of certain operating and business support functions, Blockbuster worked with Icahn Sourcing to identify third party service providers with which Blockbuster engaged in direct negotiations, in some instances through an open bid process, for the provision of certain services. Those services included call center and customer service, IT support and store maintenance functions. In each instance, we believe that products and services were competitively priced and obtained

Table of Contents

through commercially reasonable contractual arrangements negotiated independently of the influence or direction of Icahn Sourcing, and Blockbuster did not pay Icahn Sourcing or the service provider for services provided by Icahn Sourcing. The Board determined that neither Blockbuster's participation in the buying group nor its acceptance of outsourcing recommendations from Icahn Sourcing impacts Mr. Icahn's independence because (1) Blockbuster does not pay Icahn Sourcing to be a member of the buying group or for other services or support; (2) Icahn Sourcing does not receive a fee from vendors if Blockbuster purchases goods, services or property from vendors identified by Icahn Sourcing; and (3) any benefit to Mr. Icahn and Blockbuster arising from the buying group arrangement is not material to either Mr. Icahn or Blockbuster. The Board also considered Mr. Icahn's sizable beneficial ownership of Blockbuster's common stock and preferred stock and determined that his significant equity beneficial ownership did not constitute a material relationship that impaired his independence from management.

In addition, the Board considered that Mr. Bleier, previously an executive with Warner Bros. Entertainment Inc. (Warner Bros.) in New York, is provided with access to certain office space and related services, but not any compensation, by his former employer. Warner Bros. is one of our many suppliers of movie inventory. In light of the limited nature of these office services provided to Mr. Bleier, the Board determined that these services did not constitute a material relationship that would impair Mr. Bleier's independence from management.

In addition to considering potential relationships for purposes of the Board's director independence determinations, our Board has also adopted certain policies and procedures relating to its review, approval or ratification of any transaction in which Blockbuster is a participant and that is required to be reported by the SEC's rules and regulations regarding transactions with related persons (a related party transaction). These policies and procedures supplement our annual written questionnaires that are discussed above and are set forth in our Corporate Governance Guidelines. Specifically, each of our directors is expected to notify the Chair of the Nominating/Corporate Governance Committee (or, in the case of the Chair of the Nominating/Corporate Governance Committee, another member of such Committee), as soon as reasonably practicable, of any direct or indirect (including through an affiliated entity or an immediate family member) material interest in any transaction, proposed transaction or series of similar transactions in which Blockbuster is, or is to be, a participant and that is required to be reported by the SEC's rules and regulations regarding transactions with related persons. Any such related party transactions require approval or ratification by the disinterested members of the Board or a committee thereof designated by such disinterested directors, taking into account whether the transaction is on terms comparable to those that could be obtained in arm's length dealings with an unrelated third party, the value and materiality of such transaction, Blockbuster's Business Conduct Statement (including its conflict of interest provisions), any affiliate transaction approval requirements in our debt agreements, any impact on the Board's evaluation of such director's independence or on such director's eligibility to serve on one of the Board's committees, any required public disclosures by Blockbuster, and such other factors as may be deemed appropriate by the disinterested members of the Board or any committee thereof. These policies and procedures also provide that the Board will follow similar procedures and take into account similar factors, to the extent applicable, in connection with its review, approval or ratification of any related party transactions in which any of our executive officers or significant security holders has a material direct or indirect interest and that is required to be reported by the SEC's rules and regulations regarding transactions with related persons. Each of our directors is also expected to notify the Chair of the Nominating/Corporate Governance Committee (or, in the case of the Chair of the Nominating/Corporate Governance Committee, another member of such Committee), as soon as reasonably practicable, of any transaction, proposed transaction or series of similar transactions in which such director has a direct or indirect (including through an affiliated entity or an immediate family member) material interest and in which another director on our Board also has a direct or indirect (including through an affiliated entity or an immediate family member) material interest.

Executive Sessions and the Presiding Director

Our Corporate Governance Guidelines provide for regular executive sessions of the non-management directors without management participation. Such sessions are typically held immediately following adjournment of board meetings. Our Corporate Governance Guidelines designate the Chair of the Audit Committee as the presiding director at such meetings. Mr. Bowman currently serves as the Chair of the Audit Committee.

Communications with Non-Management Directors and Other Board Communications

The Board provides a process to enhance the ability of stockholders and other interested parties to communicate directly with the non-management directors as a group, the entire Board or individual directors, including the Chairman and chair of any Board committee. The chairs of Blockbuster's standing Board committees are all independent directors as determined by the Board and described above under Related Party Transaction and Director Independence.

Table of Contents

Stockholders and other interested parties may communicate directly with the Audit Committee and the non-management directors of the Board by calling our hotline, which is administered by a third party, 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 receive such communications. In addition, stockholders may send communications to the Board or individual directors by mail, by writing to the Board or such individual directors in care of Blockbuster's Secretary at Blockbuster Inc., 1201 Elm Street, Dallas, Texas 75270. The Secretary's office receives all such mailed communications initially and forwards all such communications to the applicable director or directors.

The Board has requested that items unrelated to the duties and responsibilities of the Board, such as junk mail and mass mailings, business solicitations, advertisements and other commercial communications, surveys and questionnaires, and resumes or other job inquiries, not be forwarded.

As described below under "Processes and Procedures for Determining Executive and Director Compensation" Executive Compensation, beginning with this year's annual meeting, at each annual meeting we will submit to our stockholders for approval a non-binding resolution to ratify the compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion & Analysis). Our corporate governance guidelines provide that, in the event that the stockholders do not approve this non-binding resolution, the Board will establish a committee of directors to meet with stockholders to address stockholders' concerns with respect to the compensation of our named executive officers.

Audit Committee Financial Experts and Financial Literacy

The Board has determined that Messrs. Bowman and Crystal and Ms. Clegg, the current members of the Audit Committee, are each financially literate as interpreted by the Board in its business judgment and that Mr. Bowman and Ms. Clegg each further qualifies as an audit committee financial expert, as such term is defined in the applicable rules of the SEC.

Policies on Business Conduct and Ethics

Blockbuster has established a corporate compliance program as part of its commitment to responsible business practices in all of the communities in which it operates. The Board has adopted a Business Conduct Statement that applies to all of our employees and directors and a Supplemental Code of Ethics that applies specifically to our Chief Executive Officer, Chief Financial Officer and Controller. The Business Conduct Statement and Supplemental Code of Ethics form the foundation of a compliance program that includes policies and procedures covering a variety of specific areas of professional conduct, including compliance with laws, conflicts of interest, confidentiality, public corporate disclosures, insider trading, trade practices, protection and proper use of Company assets, intellectual property, financial accounting, employment practices, health, safety and environment, political contributions and payments and matters relating to international business activities.

Both the Business Conduct Statement and Supplemental Code of Ethics are published on our website. Please refer to "Governance Overview" above for the location of these documents.

In accordance with NYSE and SEC rules, we currently intend to disclose any future amendments to our Supplemental Code of Ethics, or waivers from our Supplemental Code of Ethics for our Chief Executive Officer, Chief Financial Officer and Controller, by posting such information on our website (www.blockbuster.com) within the time period required by applicable SEC and NYSE rules.

Director Attendance at Annual Meetings

Our Corporate Governance Guidelines provide that directors are expected to attend our annual stockholders meetings. At our 2008 annual meeting, other than Mr. Icahn, each of the incumbent directors was in attendance.

Table of Contents

Processes and Procedures for Determining Executive and Director Compensation

The following discussion is intended to illustrate our typical processes and procedures for the consideration and determination of executive officer and director compensation, rather than to provide a detailed discussion of specific executive and director compensation matters. From time to time, our Board, Compensation Committee or Nominating/Corporate Governance Committee may deem additional or different processes and procedures to be appropriate for a particular matter.

Executive Compensation

As detailed in its charter, one of the primary functions of our Compensation Committee is to review and approve, or make recommendations to the Board or to the other independent directors on the Board with respect to, the compensation of our executives and such other employees or categories of employees as directed by the Board. In general, executive compensation matters can be presented to the Compensation Committee or raised with the Committee in one of the following ways: (1) at the request of the Committee chair or another Committee member or Board member; (2) in accordance with the Committee's annual agenda, which is reviewed by the Committee members and other directors on an annual basis; (3) by our Chief Executive Officer; or (4) by the Committee's outside compensation consultant.

Pursuant to its charter, the Compensation Committee has the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the compensation of our executives and our directors, and also has the sole authority to approve any such firm's fees and other retention terms. During 2008, the Compensation Committee utilized the services of Lyons, Benenson & Company Inc. (Lyons, Benenson) to assist it in evaluating executive compensation matters. The terms of Lyons, Benenson's engagement are set forth in an engagement agreement which provides, among other things, that Lyons, Benenson will perform the advisory services requested by the Compensation Committee or by Blockbuster. Pursuant to its charter, the Compensation Committee also has the authority to engage, and determine the fees of, independent counsel and other advisors as it deems necessary to carry out its duties, and has the authority to request that any of our officers or employees or our outside legal counsel attend Compensation Committee meetings or meet with any members of, or consultants to, the Committee.

Together with management, the Compensation Committee's compensation consultant and any counsel or other advisors deemed appropriate by the Compensation Committee, the Compensation Committee typically reviews and discusses the particular executive compensation matter presented and formulates a recommendation. The Compensation Committee's chair then generally reports the Compensation Committee's recommendation for approval by the full Board or, in certain cases, by the independent directors. For example, performance-based compensation matters that require approval by outside directors under Section 162(m) of the Internal Revenue Code would not generally be voted on by the Chairman of the Board, who also serves as our Chief Executive Officer, or by Mr. Zelnick who is also not independent, nor would our Chairman and Chief Executive Officer typically vote on matters regarding his individual compensation.

To the extent permitted by applicable law, the Compensation Committee may delegate its authority to any subcommittee or individual members of the Compensation Committee as it deems appropriate.

Beginning with this year's annual meeting, each year we will submit to our stockholders for approval a non-binding resolution to ratify the compensation of the named executive officers set forth in the Summary Compensation Table and the accompanying narrative disclosure in this proxy statement of material factors provided to understand the Summary Compensation Table (but excluding the Compensation Discussion & Analysis).

Director Compensation

Pursuant to its charter and our Corporate Governance Guidelines, the Nominating/Corporate Governance Committee is responsible for annually reviewing the form and amount of director compensation, taking into account any evaluation prepared by any compensation consultant retained by the Compensation Committee. If appropriate, the Nominating/Corporate Governance Committee recommends changes in director compensation to the Board, based on the following principles:

directors should be fairly compensated for the services they provide to Blockbuster (taking into account, among other things, the size and complexity of our business, and compensation and benefits paid to directors of comparable companies);

Table of Contents

directors' interests should be aligned with the interests of our stockholders; and

directors' compensation should be easy for our stockholders to understand.

Our Corporate Governance Guidelines also provide that the Nominating/Corporate Governance Committee and the Board shall consider that the independence of a director may be jeopardized if compensation and perquisites exceed customary levels, if we make substantial charitable contributions to organizations with which the director is affiliated, or if we enter into consulting contracts with (or provide other indirect forms of compensation to) a director or an organization with which a director is affiliated.

During 2008, the Nominating/Corporate Governance Committee utilized the services of Lyons, Benenson, the consultant engaged by the Compensation Committee, to assist it in reviewing and evaluating our current non-employee directors' compensation program.

As with the Compensation Committee, the Nominating/Corporate Governance Committee may, to the extent permitted by applicable law, delegate its authority to any subcommittee or individual members of the Nominating/Corporate Governance Committee as it deems appropriate.

Management Certifications

In accordance with the Sarbanes-Oxley Act of 2002 and SEC rules thereunder, our Chief Executive Officer and Chief Financial Officer have signed certifications under Sarbanes-Oxley Section 302, which have been filed as exhibits to our annual report on Form 10-K for the year ended January 4, 2009. In addition, our Chief Executive Officer submitted his most recent annual certification to the NYSE under Section 303A.12(a) of the NYSE listing standards on June 24, 2008.

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 Blockbuster Class A common stock and Class B common stock beneficially owned by (1) the named executive officers, which, for purposes of this proxy statement, include James W. Keyes, our Chairman and Chief Executive Officer, Thomas M. Casey, our Executive Vice President and Chief Financial Officer, and Eric H. Peterson, our Executive Vice President, General Counsel and Secretary; (2) each current Blockbuster director and each nominee for director; and (3) all current Blockbuster directors and executive officers as a group. The following table also sets forth information with respect to the number of shares of Blockbuster Class A common stock and Class B common stock beneficially owned by each person known by Blockbuster to beneficially own more than 5% of the outstanding shares of Blockbuster Class A common stock or Class B common stock. Except as otherwise noted, (1) the persons named in the table have sole voting and investment power with respect to all shares beneficially owned by them; and (2) ownership is as of March 20, 2009.

As of March 20, 2009, there were 125,998,602 shares of Blockbuster Class A common stock outstanding and 72,000,000 shares of Blockbuster Class B common stock outstanding.

Name	Title of Equity Securities	Beneficial Ownership of Equity Securities Number of Shares		
		Number of Outstanding Shares (1)	Underlying Options or Conversion Rights (2)	Percent of Class (3)
Edward Bleier	Blockbuster Class A Common	71,749		*
	Blockbuster Class B Common			
Robert A. Bowman	Blockbuster Class A Common	72,572		*
	Blockbuster Class B Common			
Jackie M. Clegg	Blockbuster Class A Common	74,731		*
	Blockbuster Class B Common			
James W. Crystal	Blockbuster Class A Common	54,926		*
	Blockbuster Class B Common			
Gary J. Fernandes	Blockbuster Class A Common	151,174		*
	Blockbuster Class B Common			
Jules Haimovitz	Blockbuster Class A Common	137,978		*
	Blockbuster Class B Common			
Carl C. Icahn (4)	Blockbuster Class A Common	20,605,190(5)	7,378,641(5)	21.0%
High River Limited Partnership (4)	Blockbuster Class B Common	5,566,131(5)		7.7%
Hopper Investment LLC (4)				
Barberry Corp. (4)				
Icahn Partners Master Fund L.P. (4)				

Icahn Partners Master Fund II L.P. (4)

Icahn Partners Master Fund III L.P. (4)

Icahn Offshore L.P. (4)

Icahn Partners L.P. (4)

Icahn Onshore L.P. (4)

Icahn Partners Holding L.P. (4)

IPH GP LLC (4)

Icahn Enterprises Holdings L.P. (4)

Icahn Enterprises G.P. Inc. (4)

Beckton Corp. (4)

Table of Contents

Name	Title of Equity Securities	Beneficial Ownership of Equity Securities		
		Number of Outstanding Shares (1)	Number of Shares Underlying Options or Conversion Rights (2)	Percent of Class(3)
James W. Keyes	Blockbuster Class A Common	1,382,540	2,588,517	3.1%
	Blockbuster Class B Common			
Strauss Zelnick	Blockbuster Class A Common	71,749		*
	Blockbuster Class B Common			
Thomas M. Casey	Blockbuster Class A Common		500,001	*
	Blockbuster Class B Common			
Eric H. Peterson	Blockbuster Class A Common		233,334	*
	Blockbuster Class B Common			
Black River Asset Management LLC(6)	Blockbuster Class B Common	6,771,225(7)		9.4%
Black River Global Equity Fund Ltd.(6)				
Diamondback Master Fund, Ltd.(8)	Blockbuster Class B Common	4,535,817(9)		6.3%
Diamondback Capital Management, LLC(8)				
DBCM Partners, LLC(8)				
Dimensional Fund Advisors LP (10)	Blockbuster Class A Common	7,723,455(11)		6.1%
Foxhill Opportunity Master Fund, L.P.(12)	Blockbuster Class B Common	5,255,210(13)		7.3%
Foxhill Opportunity Fund, L.P.(12)				
Foxhill Opportunity Offshore Fund, Ltd.(12)				
Foxhill Capital (GP), LLC(12)				
Foxhill Capital Partners, LLC(12)				
Neil Weiner(12)				
Intana Management, LLC(14)	Blockbuster Class A Common	7,251,615(15)		5.8%
M.A.M. Investment Ltd. (16)	Blockbuster Class B Common	5,286,954(17)		7.3%
Marathon Asset Management (Services) Ltd. (16)				
Marathon Asset Management LLP (16)				
William James Arah (16)				
Jeremy John Hosking (16)				
Neil Mark Ostrer (16)				
Prentice Capital Management, LP (18)	Blockbuster Class A Common	12,516,983(19)		9.9%
Michael Zimmerman (18)	Blockbuster Class B Common	4,077,410(19)		5.7%
President and Fellows of Harvard College (20)	Blockbuster Class B Common	5,567,100(21)		7.7%

Edgar Filing: BLOCKBUSTER INC - Form PRE 14A

Trivium Capital Management, LLC (22)	Blockbuster Class A Common	7,950,000(23)		6.3%
Trivium Offshore Fund, Ltd.(22)				
Mark J. Wattles(24)	Blockbuster Class A Common	6,841,937(25)		5.4%
Wattles Capital Management, LLC(24)				
HKW Trust(24)				
Current directors and current executive officers as a group (11 persons)	Blockbuster Class A Common	22,622,609	10,700,493	24.4%
	Blockbuster Class B Common	5,566,151		7.7%

* Represents less than 1% of the outstanding common stock of the class.

Table of Contents

- (1) The shares reported in this column include restricted share units held by our directors on March 20, 2009 that are vested, but not settleable until the later of a date certain selected by the director or the director's termination of service.
- (2) Amounts indicated reflect shares subject to stock options or conversion rights that, on March 20, 2009, were unexercised or unconverted but were exercisable or convertible for shares of Blockbuster Class A common stock within a period of 60 days from that date. These shares are excluded from the column headed "Number of Outstanding Shares."
- (3) Percentages are calculated based on the outstanding shares of Blockbuster Class A common stock or Class B common stock, as appropriate, as of March 20, 2009.
- (4) The address for Carl C. Icahn is c/o Icahn Associates Corp., 767 Fifth Avenue, 47th Floor, New York, New York 10153. The address for High River Limited Partnership; Hopper Investments LLC; Barberry Corp.; Icahn Offshore L.P.; Icahn Partners Holding, L.P.; IPH GP LLC; Icahn Enterprises Holdings L.P.; Icahn Enterprises G.P. Inc.; Beckton Corp.; Icahn Partners L.P.; and Icahn Onshore L.P. is White Plains Plaza, 445 Hamilton Avenue - Suite 1210, White Plains, New York 10601. The address for Icahn Partners Master Fund L.P.; Icahn Partners Master Fund II L.P.; and Icahn Partners Master Fund III L.P. is c/o Walkers SPV Limited, P.O. Box 908GT, 87 Mary Street, George Town, Grand Cayman, Cayman Islands.
- (5) This is based on an amendment to Schedule 13D filed with the SEC on May 9, 2008 and a Form 4 filed with the SEC on January 6, 2009. The Schedule 13D/A was jointly filed by Carl C. Icahn; High River Limited Partnership ("High River"); Hopper Investments LLC ("Hopper"); Barberry Corp. ("Barberry"); Icahn Partners Master Fund L.P. ("Icahn Master"); Icahn Partners Master Fund II L.P. ("Icahn Master II"); Icahn Partners Master Fund III L.P. ("Icahn Master III"); Icahn Offshore L.P. ("Icahn Offshore"); Icahn Partners L.P. ("Icahn Partners"); Icahn Onshore L.P. ("Icahn Onshore"); Icahn Partners Holding L.P. ("Icahn Partners Holding"); IPH GP LLC ("IPH"); Icahn Enterprises Holdings LP ("Icahn Enterprises"); Icahn Enterprises G.P. Inc. ("Icahn Enterprises GP"); and Beckton Corp. ("Beckton"). According to the Schedule 13D/A, (1) High River has sole voting power and sole dispositive power with regard to 3,208,688 shares of Class A common stock and 772,320 shares of Class B common stock, and each of Hopper, Barberry and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaim beneficial ownership of such shares for all other purposes; (2) Barberry has sole voting power and sole dispositive power with regard to 898,000 shares of Class A common stock and 340,906 shares of Class B common stock, and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaims beneficial ownership of such shares for all other purposes; (3) Icahn Master has sole voting power and sole dispositive power with regard to 7,381,540 shares of Class A common stock and 1,932,985 shares of Class B common stock, and each of Icahn Offshore, Icahn Partners Holding, IPH, Icahn Enterprises, Icahn Enterprises GP, Beckton and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaim beneficial ownership of such shares for all other purposes; (4) Icahn Master II has sole voting power and sole dispositive power with regard to 969,607 shares of Class A common stock, and each of Icahn Offshore, Icahn Partners Holding, IPH, Icahn Enterprises, Icahn Enterprises GP, Beckton and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaim beneficial ownership of such shares for all other purposes; (5) Icahn Master III has sole voting power and sole dispositive power with regard to 366,953 shares of Class A common stock, and each of Icahn Offshore, Icahn Partners Holding, IPH, Icahn Enterprises, Icahn Enterprises GP, Beckton and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaim beneficial ownership of such shares for all other purposes; and (6) Icahn Partners has sole voting power and sole dispositive power with regard to 7,708,653 shares of Class A common stock and 2,519,920 shares of Class B common stock, and each of Icahn Onshore, Icahn Partners Holding, IPH, Icahn Enterprises, Icahn Enterprises GP, Beckton and Carl C. Icahn has shared voting power and shared dispositive power with regard to such shares, but disclaim beneficial ownership of such shares for all other purposes. References to the number of shares of Class A common stock in this paragraph assume the conversion of the preferred shares held by all of the applicable registrants into shares of Class A common stock. **[All of the shares of Class A common stock and Class B common stock owned by High River are held in a margin account and are subject to a lien in favor of the applicable brokerage house. All other shares of Class A common stock and Class B common**

Table of Contents

stock owned by Carl C. Icahn and his affiliated entities are held in prime brokerage accounts, in which case the applicable investment banks have a lien on the shares for present and future obligations of the holders to the prime brokers.]

According to the Schedule 13D/A and the Form 4, Carl C. Icahn has sole voting power and sole dispositive power with regard to 71,749 shares of Class A common stock, and each of High River, Hopper, Barberry, Icahn Master, Icahn Master II, Icahn Master III, Icahn Offshore, Icahn Partners Holding, IPH, Icahn Enterprises, Icahn Enterprises GP, Beckton, Icahn Partners and Icahn Onshore disclaim beneficial ownership of such shares for all purposes.

- (6) The address for Black River Asset Management LLC is 12700 Whitewater Drive, Minnetonka, Minnesota 55343 and the address for Black River Global Equity Fund Ltd. is P.O. Box 309GT, Uglund House South Church Street, George Town, Grand Cayman, Cayman Islands.
- (7) This is based on an amendment to Schedule 13G filed with the SEC on February 17, 2009, by Black River Asset Management LLC and Black River Global Equity Fund Ltd. According to the Schedule 13G/A, Black River Asset Management LLC and Black River Global Equity Fund Ltd. have sole voting power and sole dispositive power with regard to 6,771,225 shares of Class B common stock, and are deemed to beneficially own 6,771,225 shares of Class B common stock. Also according to the Schedule 13G/A, pursuant to an investment advisory agreement, Black River Asset Management LLC has investment and voting power with respect to the securities held by Black River Global Equity Fund Ltd.
- (8) The address for Diamondback Master Fund, Ltd. is c/o Morgan Stanley Fund Services (Bermuda) Ltd., Cricket Square, 2nd Floor, Boundary Hall, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands KY1-1111, and the address for Diamondback Capital Management, LLC and DBCM Partners, LLC is One Landmark Square, 15th Floor, Stamford, Connecticut 0690.
- (9) This is based on Schedule 13G filed with the SEC on March 11, 2009 by Diamondback Master Fund, Ltd.; Diamondback Capital Management, LLC; and DBCM Partners, LLC. According to the Schedule 13G, Diamondback Master Fund, Ltd., Diamondback Capital Management, LLC, and DBCM Partners, LLC have shared voting power and shared dispositive power with regard to 4,535,817 shares of Class B common stock. As of the filing of this 13G, Diamondback Master Fund, Ltd. beneficially owns 4,535,817 shares of Class B common stock, and each of Diamondback Capital Management, LLC and DBCM Partners, LLC may be deemed the beneficial owner of the 4,535,817 shares of Class B common stock beneficially owned by Diamondback Master Fund, Ltd. Diamondback Capital Management, LLC is the investment manager of Diamondback Master Fund, Ltd. DBCM Partners, LLC is the managing member of Diamondback Capital Management, LLC. Each of Chad Loweth, Richard Sapanski and Richard H. Schimel (the Diamondback Principals) serve as managing members of DCBM Partners, LLC. The foregoing should not be construed in and of itself as an admission by any Reporting Person or the Diamondback Principals as to beneficial ownership of the shares of common stock owned by another Reporting Person. In addition, each of Diamondback Capital Management, LLC, DCBM Partners, LLC and the Diamondback Principals disclaims beneficial ownership of the shares of common stock owned by Diamondback Master Fund, Ltd.
- (10) The address for Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.
- (11) This is based on an amendment to Schedule 13G filed with the SEC on February 9, 2009, by Dimensional Fund Advisors LP. According to the Schedule 13G/A, Dimensional Fund Advisors LP has sole voting power with regard to 7,464,910 shares of Class A common stock, sole dispositive power with regard to 7,723,455 shares of Class A common stock, and is deemed to beneficially own 7,723,455 shares of Class A common stock. Also according to the Schedule 13G/A, Dimensional Fund Advisors LP (formerly, Dimensional Fund Advisors Inc.) (Dimensional), an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the

Table of Contents

Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities that are owned by the Funds, and may be deemed to be the beneficial owner of the shares held by the Funds. However, all securities reported in the Schedule 13G/A are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, the filing of the Schedule 13G shall not be construed as an admission that the reporting person or any of its affiliates is the beneficial owner of any securities covered by the Schedule 13G for any other purposes than Section 13(d) of the Securities Exchange Act of 1934.

- (12) The address for Foxhill Opportunity Master Fund, L.P., Foxhill Opportunity Fund, L.P., Foxhill Opportunity Offshore Fund, Ltd., Foxhill Capital (GP), LLC, Foxhill Capital Partners, LLC and Mr. Neil Weiner is 502 Carnegie Center, Suite 104, Princeton, New Jersey 08540.
- (13) This is based on a Schedule 13G filed with the SEC on February 13, 2009 by Foxhill Opportunity Master Fund, L.P. (Foxhill Master Fund), Foxhill Opportunity Fund, L.P. (Foxhill Opportunity), Foxhill Opportunity Offshore Fund, Ltd. (Foxhill Offshore), Foxhill Capital (GP), LLC (Foxhill GP), Foxhill Capital Partners, LLC (Foxhill Capital) and Mr. Neil Weiner. According to the 13G filing, (a) Foxhill Master Fund beneficially owns 4,509,235 shares of Class B common stock; (b) each of Foxhill Opportunity and Foxhill Offshore, as the general partners of Foxhill Master Fund, may be deemed to beneficially own the 4,509,235 shares of Class B common stock owned by Foxhill Master Fund; (c) Foxhill GP, as the general partner of Foxhill Opportunity, may be deemed to beneficially own the 4,509,235 shares of Class B common stock owned by Foxhill Master Fund; (d) Foxhill Capital, as the investment manager of a third-party managed account (the Managed Account), Foxhill Master Fund, Foxhill Opportunity and Foxhill Offshore, may be deemed to beneficially own the 4,509,235 shares of Class B common stock owned by Foxhill Master Fund and the 745,975 shares of the Class B common stock owned by the Managed Account; and (e) Neil Weiner, as the managing member of Foxhill GP and Foxhill Capital, may be deemed to beneficially own the 4,509,35 shares of Class B common stock owned by Foxhill Master Fund and the 75,975 shares of Class B common stock owned by the Managed Account.
- (14) The address for Intana Management, LLC is 505 Park Avenue, 3rd Floor, New York, NY 10022.
- (15) This is based on a Schedule 13G filed with the SEC on March 17, 2009 by Intana Management, LLC. According to the 13G filing, Intana Management, LLC has shared voting power and shared dispositive power with regard to 7,251,615 shares of Class A common stock and is deemed to beneficially own 7,251,615 shares of Class A common stock.
- (16) The address for M.A.M. Investments Ltd.; Marathon Asset Management (Services) Ltd; Marathon Asset Management LLP; William James Arah; Jeremy John Hosking; and Neil Mark Ostrer is Orion House, 5 Upper St. Martin s Lane, London, WC2H 9EA, United Kingdom.
- (17) This is based on an amendment to Schedule 13G filed with the SEC on January 12, 2009, by M.A.M. Investments Ltd.; Marathon Asset Management (Services) Ltd; Marathon Asset Management LLP; William James Arah; Jeremy John Hosking; and Neil Mark Ostrer (the Reporting Persons). According to the Schedule 13G, Marathon Asset Management LLP, Marathon Asset Management (Services) Ltd, M.A.M. Investments Ltd., William James Arah, Neil Mark Ostrer and Jeremy John Hosking have shared voting power with regard to 3,760,176 shares of Class B common stock and shared dispositive power with regard to 5,286,954 shares of Class B common stock. Each of the Reporting Persons are deemed to beneficially own 5,286,954 shares of Class B common stock and each of the Reporting Persons, except for Marathon Asset Management (Services) Ltd., M.A.M. Investments Ltd., William James Arah, Neil Mark Ostrer and Jeremy John Hosking, who disclaim any direct ownership of the shares reported in the Schedule 13G. Marathon Asset Management (Services) Limited, an owner of Marathon Asset Management LLP, is a wholly owned subsidiary of M.A.M. Investments Ltd., and as such, shares with M.A.M. Investments Ltd. the voting and dispositive power as to all of the shares beneficially owned by Marathon Asset Management (Services) Limited. Messrs. Arah, Hosking and Ostrer are directors and indirect owners of Marathon Asset Management (Services) Limited and owners and Executive Committee members of Marathon Asset Management LLP.

Table of Contents

- (18) The address for Prentice Capital Management, LP and Michael Zimmerman is 623 Fifth Avenue, 32nd Floor, New York, New York 10022.
- (19) This is based on amendments to Schedules 13G filed with the SEC on February 14, 2006 and February 13, 2009, by Prentice Capital Management, LP and Michael Zimmerman. According to the Schedules 13G/A, Prentice Capital Management, LP has shared voting power and shared dispositive power with regard to 12,170,683 shares of Class A common stock and 4,077,410 shares of Class B common stock, and Michael Zimmerman has shared voting power and shared dispositive power with regard to 12,516,983 shares of Class A common stock and 4,077,410 shares of Class B common stock. The shares of Class A common stock and Class B common stock are beneficially owned by Prentice Capital Management, LP as investment manager for investment funds in which such shares are held. Michael Zimmerman is the managing member of (1) Prentice Management GP, LLC, the general partner of Prentice Capital Management, LP; (2) Prentice Capital GP, LLC, the general partner of certain investment funds; and (3) Prentice Capital GP II, LLC, the general partner of Prentice Capital GP II, LP, which is the general partner of certain investment funds. According to the 13G filed on February 13, 2009, Michael Zimmerman may be deemed to control Prentice Capital Management and certain of the investment funds and therefore may be deemed to be the beneficial owner of the securities reported in the 13G. In addition, Mr. Zimmerman has voting and dispositive authority over 19,000 shares of Class A common stock held by the Michael Zimmerman & Holly Zimmerman Family Foundation, Inc., 304,500 shares of Class A common stock held by Mrs. Zimmerman and 22,800 shares of Class A common stock held by his children and, as such, he may be deemed to be the beneficial owner of these shares included in this 13G. Each of Michael Zimmerman and Prentice Capital Management disclaims beneficial ownership of all of the shares of Class A common stock reported in the 13G.
- (20) The address for President and Fellows of Harvard College is c/o Harvard Management Company, Inc., 600 Atlantic Avenue, Boston, Massachusetts 02210.
- (21) This is based on an amendment to Schedule 13G filed with the SEC on February 13, 2009, by President and Fellows of Harvard College. According to the Schedule 13G/A, President and Fellows of Harvard College has sole voting power, sole dispositive power and beneficial ownership with regard to 5,567,100 shares of Class B common stock.
- (22) The address for Trivium Capital Management, LLC is 600 Lexington Avenue, 23rd Floor, New York, New York 10022 and the address for Trivium Offshore Fund, Ltd. is c/o Citco Fund Services (Bermuda) Limited, Washington Mall West, 2nd Floor, 7 Reid Street, Hamilton HM11, Bermuda.
- (23) This is based on an amendment to Schedule 13G filed with the SEC on February 15, 2008, by Trivium Capital Management, LLC and Trivium Offshore Fund, Ltd. According to the Schedule 13G/A, (1) Trivium Capital Management, LLC has shared voting power with regard to 7,680,254 shares of Class A common stock, shared dispositive power with regard to 7,950,000 shares of Class A common stock, and is deemed to beneficially own 7,950,000 shares of Class A common stock; and (2) Trivium Offshore Fund, Ltd. beneficially owns and has shared voting power and shared dispositive power with regard to 6,431,984 shares of Class A common stock.
- (24) The address for Mark J. Wattles and Wattles Capital Management, LLC, is 321 W. 84th Avenue, Suite A, Thornton, CO 80260, and the address for HKW Trust is 7945 W. Sahara Avenue, Suite 205, Las Vegas, NV 89117.
- (25) This is based on a Schedule 13D filed with the SEC on March 16, 2009, by Mark J. Wattles as the Reporting Person, an individual who is the sole member and manager of Wattles Capital Management, LLC (WCM) and owns 100% of its membership interests. According to the Schedule 13D, WCM has sole voting power and sole dispositive power with regard to 4,841,937 shares of Class A common stock, and HKW Trust has sole voting power and sole dispositive power with regard to 2,000,000 shares of Class A common stock. WCM and HKW Trust are deemed to beneficially own 4,841,937 and 2,000,000 shares of Class A common stock respectively, which together represent 5.7% of the outstanding shares of Class A common stock.

Table of Contents

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 and related rules of the SEC require our directors and officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership and reports of changes in ownership with the SEC. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) reports that they file. As with many public companies, we provide assistance to our directors (other than Mr. Icahn, one of our non-employee directors, who obtains such assistance from his own advisors) and executive officers in making their Section 16(a) filings pursuant to powers of attorney granted by our insiders. To our knowledge, based solely on our review of the copies of Section 16(a) reports received by us with respect to fiscal 2008, including those reports that we have filed on behalf of our directors and executive officers pursuant to powers of attorney, or written representations from certain reporting persons, we believe that all filing requirements applicable to our directors, officers and persons who own more than 10% of a registered class of our equity securities have been satisfied, except that Prentice Capital Management, LP, a holder of more than 10% of a registered class of our equity securities, filed a Form 3 and Form 3/A in December 2008, each of which was filed beyond the ten day filing deadline.

Table of Contents

EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

Compensation Discussion & Analysis

Executive Summary

This compensation discussion and analysis (CD&A) provides information about our compensation objectives and policies for our Chief Executive Officer, our Chief Financial Officer and our other most highly compensated executive officer and is intended to place in perspective the information contained in the executive compensation tables that follow this discussion. We provide in this CD&A a general description of our compensation program and specific information about its various components. Immediately following this CD&A is our Compensation Committee Report.

Throughout this discussion, the following individuals are referred to collectively as the named executive officers and are included in the Summary Compensation Table on page 28:

James W. Keyes, Chairman of the Board and Chief Executive Officer;

Thomas M. Casey, Executive Vice President and Chief Financial Officer; and

Eric H. Peterson, Executive Vice President, General Counsel and Secretary

Compensation Objectives and Philosophy

Our primary objectives when determining compensation for our named executive officers are to:

set levels of annual salary, bonus and equity compensation that are competitive and that will attract and retain superior executives, taking into account the difficult industry conditions and challenges posed to our business by rapidly evolving technologies, sustained economic declines affecting consumer spending habits and preferences, and the increasingly diverse and competitive environment that we currently face;

incorporate a performance-based component to executive compensation by linking both bonus and equity compensation to our financial and operational performance; and

provide long-term equity-based compensation, thereby further aligning the interests of our executives with those of our stockholders. Generally, by pursuing these objectives, we intend to reward each executive's (1) individual performance and contribution to our corporate performance; (2) level and scope of responsibility and experience; and (3) ability to influence our future growth and profitability. We are able to determine whether our objectives are being met by comparing the value of our executive compensation packages to those being awarded by our peers, by evaluating our ability to attract and retain quality executive talent, and by analyzing whether performance-based and long-term equity-based compensation is appropriately incentivizing management and resulting in improvements in our performance. We assess our compensation objectives and philosophy on an ongoing basis, and make adjustments where necessary to respond to areas where our objectives may not be being fully satisfied, to changing competitive and economic conditions and to evolving best practices in executive compensation.

While no formal policy exists for allocating different components of compensation to each named executive officer, in formulating the compensation arrangements for our named executive officers, we sought to allocate a large portion of their compensation to equity awards relative to cash compensation. Notwithstanding the recent decline in the price of Blockbuster's common stock, consistent with our objective of having a substantial performance-based component in our executives' compensation packages, approximately 89.2 percent of Mr. Keyes' total compensation opportunity, 72.0 percent of Mr. Casey's total compensation opportunity and 64.5 percent of Mr. Peterson's total compensation

Edgar Filing: BLOCKBUSTER INC - Form PRE 14A

opportunity are predicated on Blockbuster's financial and operational performance. Although the grant date values of the equity awards to the named executive officers were substantial as of the date of grant, the reality today is that all of the stock options held by these executives are currently underwater, by which we mean that the exercise prices associated with those stock options significantly exceed the current fair market value of Blockbuster's common stock.

Table of Contents

Compensation Process

The Compensation Committee of our Board is responsible for assisting management and the Board in defining and overseeing our general compensation practices. However, because we value the experience and opinions of each Board member with respect to executive compensation matters and because executive compensation is more important than ever in corporate governance, our full Board has reserved the authority with respect to the approval of named executive officer compensation. During fiscal 2008, in addition to drawing upon the experience and judgment of each of our directors, the Compensation Committee utilized the services of Lyons, Benenson to assist it in evaluating executive compensation matters. Lyons, Benenson does not have approval authority for the ultimate compensation that is provided to our named executive officers. Instead, they provide recommendations by identifying areas that do not appear to be consistent with the general practice of our peers (without setting specific benchmarks and using a discretionary standard) to management and to the Compensation Committee prior to meetings when compensation matters are considered. This peer group is made up of eleven small box retailers that have median revenues that are comparable to ours (Autozone, Barnes & Noble, Borders, Family Dollar, Foot Locker, Limited Brands, Office Depot, RadioShack, Starbucks, The TJX Companies and YUM! Brands) and two peer competitors Netflix and Movie Gallery (when data is available) that we have defined as being representative of the marketplace for the talent we seek.

For a more complete description of our processes and procedures for determining executive compensation, please see the section of this proxy statement entitled *Corporate Governance Processes and Procedures for Determining Executive and Director Compensation Executive Compensation*.

Role of Management in Establishing Compensation

Of our named executive officers, only our Chief Executive Officer provides the Compensation Committee with his recommendations regarding the compensation of or policies that affect the other named executive officers. Mr. Keyes generally is in attendance at Compensation Committee meetings and provides any compensation recommendations he might have with respect to the other named executive officers to the Compensation Committee at such times. We value the Chief Executive Officer's opinion as to compensation decisions because we feel that he is in a unique position to see the day-to-day activities of the named executive officers reporting directly to him and because he desires to preserve the competitiveness of our compensation packages in relation to peer companies. However, as discussed above, the Compensation Committee makes recommendations to our Board regarding the compensation of our named executive officers, and our Board generally makes all final decisions concerning compensation for our named executive officers.

Compensation of the Named Executive Officers

For fiscal 2008, the principal components of compensation for the named executive officers were:

base salary;

annual bonus;

outstanding long-term equity compensation; and

perquisites and other personal benefits.

Except where it is appropriate to discuss an element of a particular named executive officer's compensation separately, the following is an aggregated discussion of the elements of compensation for the named executive officers. Due to the distinctiveness of the Chief Executive Officer position, following this broad discussion, more specific details are given concerning the compensation package for Mr. Keyes.

Salary

We view cash compensation as a key element of overall executive compensation and generally target salary levels to be competitive, by which we mean relatively close to the medians for comparable positions within our retail peer group, and

Table of Contents

to be commensurate with an executive's position and level of responsibility, as well as experience, tenure and ability to influence our future success. The salaries of our named executive officers are typically reviewed annually during our first quarter and may also be reviewed upon a promotion or other change in job responsibilities. During its 2008 salary review, Lyons, Benenson performed a review of the cash compensation, including salary and bonus, of executives in similar positions at the companies in the retail peer group. Mr. Keyes' salary was 75 percent of the peer group median, Mr. Casey's salary was 90.8 percent of the peer group median, and Mr. Peterson's salary was 105 percent of the peer group median. Given that each of the named executive officers' salaries were only recently set in 2007 when such executives joined our company and that their salaries throughout 2008 remained in close proximity to the peer group medians, management made no recommendations to increase their salaries. The Board concurred with management and did not take any action regarding the salaries of the named executive officers during 2008. Actual 2008 salaries earned by each of the named executive officers are set forth below under Summary Compensation Table.

In making determinations regarding compensation for fiscal 2009, the Compensation Committee and the Board again reviewed the factors noted above. The Committee, the Board and management remain in agreement that the current state of the economy, coupled with no discernable change in competitive top executive compensation levels to date, argue against any increases now in the salaries of our named executive officers. The Committee and the Board will carefully monitor trends and developments in peer group compensation as the year progresses.

Annual Bonus

Consistent with our view that cash compensation is a key element of overall compensation, bonuses for the named executive officers are also considered annually. Our Senior Executive Annual Performance Bonus Plan (the Senior Bonus Plan) provides us with the flexibility to design cash incentive compensation programs to promote performance and the achievement of our goals and objectives. Our bonus program is specifically designed to emphasize pay-for-performance, and bonuses for the named executive officers have historically been determined based on both our achievement of pre-established performance criteria and, at times, individual performance criteria. Individual performance goals established for a specified performance period may be based on criteria such as the individual's contributions to our overall success and the performance of the businesses and responsibility areas that the individual oversees. The performance targets for our company relate to our financial goals for the specific performance period, and generally are a combination of one or more of the following measures: total net revenue, operating income, adjusted operating income, income before taxes, adjusted income before taxes, net income or adjusted net income. Each Senior Bonus Plan participant has a target award for each fiscal year, which generally is a percentage of the participant's salary. The Senior Bonus Plan and Amendment No. 1 thereto are filed as exhibits to our quarterly report on Form 10-Q for the quarterly period ended September 30, 2004 and our annual report on Form 10-K for the year ended December 31, 2004, respectively.

For fiscal 2008, payment of each named executive officer's bonus award was based upon our achievement during the period from January 7, 2008 through January 4, 2009 of performance goals based on adjusted operating income and total net revenue due to the fact that management, our Board and the investment community consider these among the most important measures in evaluating our performance. The Board established specified levels of adjusted operating income to be achieved to fund a bonus pool out of which different amounts of bonus payments would be made depending upon our achievement of certain levels of total net revenue and adjusted operating income for 2008. Under the Senior Bonus Plan, adjusted operating income means our operating income plus intangible amortization and depreciation expenses, adjusted for non-cash charges, such as changes in accounting principles. Total net revenue is equivalent to our consolidated total net revenue as determined in accordance with accounting principles generally accepted in the United States. Payment of bonuses for fiscal 2008 under the Senior Bonus Plan required that our adjusted operating income exceed the low end of our financial outlook for fiscal 2008 that was released publicly. In addition, the payment of maximum bonuses for fiscal 2008 required that our adjusted operating income substantially exceed that of our published financial outlook for fiscal 2008. Further, a minimum adjusted operating income target was set, below which no bonuses would be funded or paid. As such, we believe that the fiscal 2008 performance thresholds appropriately reflected our financial goals for the year and were neither certain to be met nor unattainable. Under their employment agreements, each fiscal year, Mr. Keyes has a target award equal to \$500,000, and each of Messrs. Casey and Peterson has a target award equal to 60% of his annual salary. Once the minimum adjusted operating target was met, ultimate bonus awards were determined based upon a performance grid comparing relative levels of adjusted operating income with total net revenue. Based upon our results of operations for the performance period, a bonus pool of 84.3% of the maximum amount was established and, through application of the performance grid determinants, a bonus award of 80.5% of each named executive officer's target award was paid. The actual amount of bonuses awarded could have ranged from 0% to 150% of each target award.

Table of Contents

Under the terms of the Senior Bonus Plan, once the pre-established performance criteria have been met, bonuses are deemed to have been earned, except that the directors determined to be outside directors for Section 162(m) purposes may, in their sole discretion, reduce the amount of any final bonus payout to reflect the outside directors' assessment of the named executive officer's individual performance or for any other reason. With respect to the fiscal 2008 bonus awards under the Senior Bonus Plan, such downward discretion was not exercised by the outside directors. For fiscal 2008, (1) Mr. Keyes received a bonus equal to 80.5% of the \$500,000 target bonus amount set forth in his employment agreement, or \$402,500, which bonus was paid in fully vested shares of Class A common stock as called for in his employment agreement and reflecting the Board's desire to allocate a large portion of his compensation to equity and incentivize him to increase stockholder value; and (2) Messrs. Casey and Peterson each received 80.5% of the target bonus amounts set forth in their respective employment agreements, or \$241,500 and \$193,200, respectively. Bonuses are discussed in more detail below under Fiscal 2008 Grants of Plan-Based Awards.

In February 2009, when evaluating a desired fiscal 2009 bonus program, the Compensation Committee and Board considered, among other factors, (i) the depressed economic environment and its current and projected effects on consumer spending, (ii) the effect of market conditions on our results of operations for fiscal 2008 and the potential for continued adverse effects on our performance in fiscal 2009, (iii) the uncertain prospects for general economic recovery in fiscal 2009, and (iv) our ongoing focus on cash management and expense optimization, and determined not to establish performance targets or bonus target awards under the Senior Bonus Plan for fiscal 2009. Our Board will have the ability to award discretionary bonuses for fiscal 2009 based upon one or more of the performance measures set forth in the Senior Bonus Plan or other measures that it may determine are appropriate. In making this determination, our Board believes that not establishing fiscal 2009 performance targets or bonus target awards is in our best interests given that it provides maximum flexibility in achieving the appropriate risk-reward balance in executive compensation during difficult and unpredictable economic conditions. Each of the named executive officers has agreed with the Board's decision in this regard and has agreed to enter into an amendment to his employment agreement waiving his rights to bonus payments under the Senior Bonus Plan for fiscal 2009.

Long-Term Equity Compensation

We believe that the use of stock option awards appropriately links executive interests to enhancing stockholder value. In considering the nature and timing of these awards, the number of and potential gains on past awards of equity-based compensation will be reviewed for each executive before new awards are granted. We believe that, relative to other types of equity awards, stock options generally provide our executives with a better incentive to grow our stock price because they will realize value from the stock options only to the extent that our stock price increases. We currently maintain two separate long-term equity compensation plans: the Amended and Restated 1999 Long-Term Management Incentive Plan (which will expire in July 2009) and the 2004 Long-Term Management Incentive Plan (the Compensation Plans). The purpose of the Compensation Plans is to benefit and advance our stockholders' interests by attracting and retaining employees, directors, and advisors, and further rewarding these individuals for their contributions to our financial success, which we believe motivates them to continue to make such contributions in the future. The types of awards available for grant under the Compensation Plans are stock options, stock appreciation rights, restricted shares, restricted share units, unrestricted shares of common stock and phantom shares. The Board will determine the vesting provisions and any other limitations on exercisability or recognition of awards made under the Compensation Plans, such as performance targets, on an individual basis. Such performance goals may be described in terms of objectives that are related to the individual participant, to a particular division or region, to our overall financial performance, or a measurement relative to selected peer companies or a market index. The Board also has sole discretion over whether awards under the Compensation Plans will be structured to qualify for deductibility pursuant to Section 162(m) of the Internal Revenue Code.

During fiscal 2008, we did not grant additional long-term equity compensation to our named executive officers given that they were each awarded option grants in 2007 pursuant to their compensation arrangements entered into at such time that were intended to cover their initial years with the company. In addition, Mr. Keyes was issued an award in 2007, which restricted share units do not vest until 2010. In formulating these compensation arrangements in 2007, we sought to achieve greater alignment of the interests of the executives and the interests of our stockholders by motivating the executive

Table of Contents

officers to increase stockholder value and rewarding the executive officers when stockholder value increases. In particular, we believed that the allocation of a large portion of the named executive officers' compensation to equity awards and the escalating exercise prices of their stock option awards would have appropriately incentivized our executives to maximize stockholder value. The recent and precipitous decline in the price of Blockbuster stock has greatly reduced the value of the equity component of each named executive officer's compensation package. Notwithstanding that decline in value, our named executive officers remain fully committed to increasing the value of our stockholders' investment in the company. See "Outstanding Equity Awards at 2008 Fiscal Year End" for more information regarding the terms of outstanding equity awards held by our named executive officers.

Perquisites and Personal Benefits

We provide each of our named executive officers with the available employee benefit plans, programs or arrangements that are generally provided to our other executives, or to our employees in general. The perquisites we provide, if any, are determined in accordance with the responsibilities and duties befitting each named executive officer's position and are generally limited in scope. Perquisites provided to our named executive officers for fiscal 2008 are discussed in further detail in the footnotes following the "Summary Compensation Table" below.

Retirement Benefits

The named executive officers are eligible to participate in our tax-qualified 401(k) plan. In addition, we sponsor an excess investment plan that permits eligible employees to defer salary and bonus compensation in addition to the amount that would otherwise be allowed under our tax-qualified 401(k) plan based on the Internal Revenue Code's qualified plan compensation limits. The excess investment plan is a nonqualified deferred compensation plan and is intended to comply with the requirements of Section 409A of the Internal Revenue Code. None of our named executive officers have elected to participate in our 401(k) plan and, hence, none of our named executive officers participated in the excess investment plan.

Employment and Change in Control Provisions

All of the named executive officers have employment agreements with us which provide certain benefits upon termination of employment in various scenarios. While Mr. Keyes' employment agreement does not provide for severance, it does provide for accelerated vesting of specified equity awards in the event of certain corporate transactions such as a change in control. Messrs. Casey and Peterson's employment agreements each provide for the payment of one year's salary in severance upon an involuntary termination, but also provide that any unvested option awards shall be forfeited in such event. When we entered into these agreements, we believed that the severance and other benefits provided to the named executive officers represented reasonable compensation packages and allowed the named executive officers to focus their attention and energy on our business. See "Employment Contracts and Potential Payments Upon Termination or Change-in-Control" below for a detailed discussion of these payments and benefits.

Compensation of the Chief Executive Officer

Employment Agreement Analysis and Compensation Elements

Mr. Keyes' fiscal 2008 compensation was principally established by the terms of his employment agreement, which was recommended by the Compensation Committee and approved by the Board in connection with our hiring of Mr. Keyes in 2007. During its review and analysis of Mr. Keyes' employment agreement, the Compensation Committee and the Board consulted with Lyons, Benenson regarding Mr. Keyes' compensation. Lyons, Benenson provided the Compensation Committee and the Board with calculations of the present value of Mr. Keyes' compensation package and assisted the Compensation Committee and the Board in comparing Mr. Keyes' compensation package to compensation packages of executives at other companies (including Barnes & Noble, Borders, Dollar General, Family Dollar, Foot Locker, GameStop, Limited Brands, Movie Gallery, Netflix, Office Depot, RadioShack, The TJX Companies and YUM! Brands). As part of its deliberations in establishing Mr. Keyes' compensation package, the Compensation Committee and the Board considered the importance of aligning Mr. Keyes' interests with the interests of our stockholders and, to that end, allocated a large portion of Mr. Keyes' compensation to stock option awards equal to 4% of our outstanding Class A common stock and Class B common stock, providing that one-third of such stock options will be exercisable at the fair market value of our stock at such time, and the remaining awards at escalating exercise prices of at least 15% above the fair market value of our stock at such

Table of Contents

time. We also granted Mr. Keyes \$3,000,000 of restricted share units which do not vest until July 2010 unless Mr. Keyes' employment terminates earlier under certain circumstances or we experience certain corporate transactions, each as discussed in greater detail below under "Employment Contracts and Potential Payments Upon Termination or Change-in-Control." Employment Agreement with Chairman and CEO, and required that he purchase \$3,000,000 worth of our common stock shortly after commencement of his employment. The Compensation Committee and the Board believed that weighting Mr. Keyes' compensation package heavily with equity awards and requiring him to invest a significant amount of his own funds in our common stock would align Mr. Keyes' interests with the interests of our stockholders by motivating him to increase stockholder value and rewarding him when stockholder value increases.

Taking into account the input from Lyons, Benenson and the goals for alignment with stockholder interests, the Board approved the various components of compensation in Mr. Keyes' employment agreement, including salary (to address market data and provide a base level of compensation), bonus (to address a pay-for-performance component) and stock options and restricted share units (to address alignment with stockholder interests). In addition, as discussed above, Mr. Keyes' employment agreement provides that his bonus each year is to be paid in fully vested shares of our Class A common stock, which further aligns Mr. Keyes' interests with the interests of our stockholders. The market data analysis from Lyons, Benenson showed that the base salary component of Mr. Keyes' compensation was at the 1st percentile of market practice, which placed it 25 percent below the market median. Because Mr. Keyes' base salary is below the market median, we have greater flexibility to place additional emphasis on variable compensation, which is consistent with our compensation program objectives. The market data analysis also indicated that Mr. Keyes' annual bonus opportunity was at the 1st percentile of market practice, which placed it at 43 percent of the market median. The present value of Mr. Keyes' equity compensation grants when awarded registered at the 8th percentile of market practice or 25 percent of the market median. This significant allocation of his compensation to equity awards emphasized the importance of Mr. Keyes' increasing stockholder value. For Mr. Keyes' total compensation package to actually exceed the market median for similarly situated officers of our competitors, the value of our stock must outperform the equity of our competitors. While this generally remains true, the recent, broad-based decline in equity values across the market, including the decline in the price of our stock, has reduced the present and future value of Mr. Keyes' compensation package.

The Compensation Committee and the Board also reviewed the potential effect on and cost to us of severance and change-in-control scenarios under Mr. Keyes' employment agreement. In particular, the Compensation Committee and the Board believed that several facets of Mr. Keyes' employment agreement, including that Mr. Keyes would forfeit all of his unvested stock options in the event that his employment is terminated by us without cause and that accelerated vesting of his equity awards in connection with a change-in-control of us would be based on how long after the commencement of his employment that such a transaction occurred, were more favorable to our stockholders than arrangements at many other companies.

Fiscal 2008 Compensation

Pursuant to his employment agreement, for fiscal 2008, Mr. Keyes received (1) \$750,000 in base salary and (2) a bonus equal to \$402,500, which was paid in fully vested shares of our Class A common stock. Pursuant to his employment agreement, Mr. Keyes is entitled to receive an annual bonus opportunity in an amount not less than \$500,000, subject to the terms of our Senior Bonus Plan, which is described in further detail above. In 2008, Mr. Keyes' bonus was calculated by taking his target bonus of \$500,000 and multiplying it by 80.5%, which is the percentage of the performance target established for fiscal 2008 that we achieved.

Tax and Accounting Implications

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code generally limits the federal tax deductibility of compensation paid to our Chief Executive Officer and our three other highest paid officers (other than our Chief Executive Officer and principal financial officer) to \$1,000,000, but provides an exception to this limitation for certain performance-based compensation. Except in specific situations where we deem that it is not in our best interests, our objective generally is for executive compensation in excess of \$1,000,000 to qualify for the performance-based compensation exception. Nevertheless, from time to time the Board authorizes compensation that does not meet the exception in order to maintain flexibility with respect to compensating executives in a manner designed to promote varying corporate goals. Of the components of compensation for

Table of Contents

our named executive officers, bonus and performance-based equity compensation are each typically designed to be deductible under Section 162(m), while salary and perquisites are not. As such, performance targets for bonus and performance-based equity compensation are generally set during the first quarter of our fiscal year in order to ensure that these awards are eligible for deductibility under Section 162(m).

With respect to the fiscal 2008 bonus compensation of the named executive officers, for business purposes, the Board established specified levels of adjusted operating income to be achieved to fund a bonus pool out of which different amounts of bonus payments would be made depending upon our achievement of certain levels of total net revenue and adjusted operating income for fiscal 2008. Because the bonus pool funding measurement of adjusted operating income is among the performance targets approved by our stockholders under the Senior Bonus Plan, the executives' bonus payments with respect to fiscal 2008 qualified for deductibility pursuant to Section 162(m). As discussed in greater detail above, the Compensation Committee has determined that annual bonuses for fiscal 2009 will be discretionary and, hence, will not qualify for deductibility under Section 162(m).

Section 280G of the Internal Revenue Code disallows a deduction of any excess parachute payment paid in connection with certain change in control events. A portion of the amounts payable pursuant to, and benefits available under, our equity compensation awards or employment agreements benefiting our named executive officers may constitute excess parachute payments and will not be deductible by us. In contrast to Section 162(m), amounts payable in connection with a change in control transaction cannot easily be designed to avoid treatment as excess parachute payments. Although our Compensation Committee is aware of the possibility of a lost deduction in connection with these payments and intends to take reasonable actions to preserve the deductibility of amounts payable to our named executive officers to the extent possible, our Compensation Committee does not believe it is appropriate for tax considerations to be determinative in the design of change in control protections made available to our named executive officers, particularly given that severance provided under the employment agreements is equal to only one year of base salary, in the case of Messrs. Casey and Peterson, and that change in control benefits are limited. Mr. Keyes employment agreement makes no provision for cash severance.

Accounting for Stock Based Compensation

Effective October 1, 2004, we began accounting for stock-based payments, including awards under our Compensation Plans, in accordance with the requirements of FAS 123R.

Summary

The relatively limited actions taken with respect to the fiscal 2008 compensation of our named executive officers were consistent with our compensation objectives and philosophy and reflect the unexpectedly difficult economic conditions we faced in the second half of the year and continue to face. We intend to continuously monitor and evaluate our compensation practices to ensure that they remain aligned with our focus on (1) setting competitive compensation levels that allow us to attract and retain quality executives under challenging industry and economic conditions; (2) emphasizing performance-based compensation; and (3) providing equity-based compensation that further aligns the interests of our named executive officers with those of our other stockholders.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion & Analysis. Based on this review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion & Analysis be included in our proxy statement with respect to our 2009 annual meeting of stockholders.

Compensation Committee of the Board of Directors

James W. Crystal

Gary J. Fernandes, Chair

Jules Haimovitz

Table of Contents**Summary Compensation Table**

The following table provides information concerning the compensation of our named executive officers for the fiscal years ended 2007 and 2008. None of the named executive officers was employed by the Company at any point during fiscal 2006.

For a discussion of the material terms of each named executive officer's employment agreement, please refer to the section of this proxy statement entitled "Employment Contracts and Potential Payments Upon Termination or Change-in-Control." Compensation for the named executive officers consisted of salary, bonus and all other compensation, which includes the value of perquisites. Based on the information presented below, Salary and Bonus accounted for approximately 20.3% of the total compensation of the named executive officers for fiscal 2008.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Option Awards \$(2)	Non-Equity	All Other	Total (\$)
						Incentive Plan Compensation (\$)	Compensation (\$)	
James W. Keyes	2008	\$ 750,000	\$ 402,500(3)	\$ 999,999	\$ 6,258,846		\$ 1,688(4)	\$ 8,413,033
Chairman of the Board and Chief Executive Officer	2007	\$ 346,154	\$ 254,700(5)	\$ 520,832	\$ 4,482,245		\$ 20,000(6)	\$ 5,623,931
Thomas M. Casey	2008	\$ 500,000	\$ 241,500		\$ 1,526,159		\$ 179,789(7)	\$ 2,447,448
Executive Vice President and Chief Financial Officer	2007	\$ 130,769	\$ 300,000(8)		\$ 567,154		\$ 42,990(9)	\$ 1,040,913
Eric H. Peterson	2008	\$ 400,000	\$ 193,200		\$ 793,435		\$ 5,086(10)	\$ 1,391,721
Executive Vice President, General Counsel and Secretary	2007	\$ 69,231	\$ 60,000		\$ 205,139			\$ 334,370

- (1) The amounts in this column reflect dollar amounts recognized for financial statement reporting purposes with respect to each fiscal year in accordance with FAS 123R. Any assumptions used in the calculation of these amounts are included in footnote 3 to the Company's audited financial statements for the fiscal year ended January 4, 2009 and in footnote 5 to the Company's audited financial statements for the fiscal year ended January 6, 2008, which are included in the Company's annual reports on Form 10-K filed with the SEC on April [], 2009 and March 6, 2008, respectively.
- (2) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to each fiscal year in accordance with FAS 123R. Any assumptions used in the calculation of this amount are included in footnote 3 to the Company's audited financial statements for the the fiscal year ended January 4, 2009 and in footnote 5 to the Company's audited financial statements for the fiscal year ended January 6, 2008, which are included in the Company's annual reports on Form 10-K filed with the SEC on April [], 2009 and March 6, 2008, respectively. Refer to the section of this proxy statement entitled "Outstanding Equity Awards at 2008 Fiscal Year-End" for option exercise prices. The closing market price of our Class A common stock on January 2, 2009 was \$1.30, which is substantially lower than the minimum option exercise prices for each named executive officer, thereby substantially reducing the present and future value of the compensation package for the named executive officers.
- (3) Mr. Keyes received a bonus equal to 80.5% of the \$500,000 bonus set forth in his employment agreement. This bonus was paid in fully vested shares of our Class A common stock.

Table of Contents

- (4) This amount consists of costs for an executive physical and costs for auto insurance, which do not exceed the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits for Mr. Keyes.

- (5) Mr. Keyes received a bonus equal to the pro-rated portion of the \$500,000 bonus set forth in his employment agreement. This bonus was paid in fully vested shares of our Class A common stock.

- (6) This amount consists of legal expenses paid on Mr. Keyes' behalf.

- (7) This amount consists of \$169,978 in relocation expenses and costs for car allowance, auto insurance, executive physical and non-employee travel expenses, which do not exceed the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits for Mr. Casey.

- (8) Mr. Casey received a bonus of \$100,000, which is the bonus amount that he was guaranteed to receive for 2007 pursuant to his employment agreement. He also received a sign-on bonus of \$200,000 in connection with the commencement of his employment.

- (9) This amount consists of relocation expenses.

- (10) This amount consists of costs for car allowance and auto insurance, which do not exceed the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits for Mr. Peterson.

Table of Contents**Fiscal 2008 Grants of Plan-Based Awards**

The following table and accompanying narrative disclosure provide information related to grants of plan-based awards to our named executive officers during fiscal 2008.

**Estimated Future Payouts Under
Non-Equity Incentive Plan Awards(1)**

Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	All Other Stock Awards; Number of Shares of Stock or Units (#)	All Other Option Awards; Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards
James W. Keyes	N/A	N/A	\$ 500,000	\$ 750,000	0	0	0	0
Thomas M. Casey	N/A	N/A	\$ 300,000	\$ 450,000	0	0	0	0
Eric H. Peterson	N/A	N/A	\$ 240,000	\$ 360,000	0	0	0	0

- (1) These amounts reflect the target and maximum amounts that were payable to each of the named executive officers with respect to the 2008 bonus under the Senior Bonus Plan. The Senior Bonus Plan participants' fiscal 2008 bonus was based upon our achievement during the period from January 6, 2008 until January 4, 2009 of specified performance levels of adjusted operating income to be achieved (as established by the Board) to fund the bonus pool out of which different amounts of bonus payments would be made depending upon levels of total net revenue and adjusted operating income actually achieved for fiscal 2008. The actual amount of the bonus awarded could range from 0% to 150% of the target awards. Application of the performance goals to the Company's results of operations for the performance period resulted in payment to Senior Bonus Plan participants equal to 80.5% of their target bonus amounts. Mr. Keyes received a bonus of \$402,500, which is equal to 80.5% of the \$500,000 bonus set forth in his employment agreement. Mr. Casey received a bonus of \$241,500, which is 80.5% of the bonus set forth in his employment agreement. Mr. Peterson received a bonus of \$193,200, which is 80.5% of the bonus set forth in his employment agreement.

Table of Contents**Outstanding Equity Awards at 2008 Fiscal Year-End**

The following table provides information related to the outstanding equity awards held by each of our named executive officers at January 4, 2009.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$ (2))
James W. Keyes		2,588,516	\$ 4.485	07/02/2012	1,725,677	\$ 2,243,380
		1,725,678	\$ 5.1578	07/02/2012	1,150,452	\$ 1,495,588
		1,725,677	\$ 5.9314	07/02/2012	1,150,451	\$ 1,495,586
		1,725,676	\$ 6.8211	07/02/2012	1,150,450	\$ 1,495,585
Thomas M. Casey		500,000	\$ 5.08	09/12/2012	333,333	\$ 433,332
		500,000	\$ 5.842	09/12/2012	333,333	\$ 433,333
		500,000	\$ 6.7056	09/12/2012	333,333	\$ 433,333
Eric H. Peterson		233,334	\$ 5.32	10/15/2012	155,556	\$ 202,223
		233,333	\$ 6.118	10/15/2012	155,555	\$ 202,221
		233,333	\$ 7.0224	10/15/2012	155,555	\$ 202,221

- (1) Represents securities underlying options to purchase our Class A common stock. The stock options will vest over a three-year period, with one-third of the stock options vesting on each anniversary of the commencement date of the named executive officer's employment unless, in the case of Mr. Keyes, Mr. Keyes' employment terminates earlier under certain circumstances or we experience certain corporate transactions. See Employment Contracts and Potential Payments Upon Termination or Change-in-Control Employment Agreement with Chairman and CEO.
- (2) Calculated by multiplying \$1.30, the closing market price of our Class A common stock on January 2, 2009, by the number of restricted share units listed in the foregoing column. The restricted share units will vest in full on the third anniversary of Mr. Keyes' employment, unless Mr. Keyes' employment terminates earlier under certain circumstances or we experience certain corporate transactions. See Employment Contracts and Potential Payments Upon Termination or Change-in-Control Employment Agreement with Chairman and CEO.

Table of Contents**Fiscal 2008 Option Exercises and Stock Vested**

The following table provides information related to options exercised by, and stock awards vested for, our named executive officers during fiscal 2008.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
James W. Keyes				
Thomas M. Casey				
Eric H. Peterson				

- (1) Calculated by determining the difference between the market price of the underlying securities at exercise and the exercise price of the options.
- (2) Calculated by multiplying the number of restricted shares or restricted share units by the market value of the underlying shares on the vesting date.

Table of Contents

Defined Benefit Pension Plans

Through December 31, 1999, we participated in a non-contributory qualified defined benefit pension plan and, for some of our highly compensated employees, a non-qualified excess defined benefit pension plan. Both plans were sponsored by the company formerly known as Viacom Inc. ("Viacom"). Our 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 Viacom plans were determined by a formula that uses final average compensation (salary and bonus) and years of benefit service. The benefits under Viacom's excess defined benefit pension plan are not subject to the provisions of the Internal Revenue Code that limit the compensation used to determine benefits and the amount of annual benefits payable under Viacom's qualified defined benefit pension plan.

Our employees ceased to participate in Viacom's defined benefit pension plans on December 31, 1999. All of our employees who were actively employed by us and participating in Viacom's qualified defined benefit pension plan or Viacom's excess defined benefit pension plan on December 31, 1999 were fully vested in their accrued benefits in Viacom's plans on that date. Messrs. Keyes, Casey and Peterson are not participants in the Viacom qualified defined benefit pension plan or the Viacom excess defined benefit pension plan.

In connection with our divestiture from Viacom in October 2004, Viacom agreed to retain the accrued liability for benefits for our current and former employees under the Viacom qualified defined benefit pension plan. We agreed to indemnify Viacom for taking certain actions that increase Viacom's liability under the Viacom qualified defined benefit 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 us. After the first \$1 million of such actuarial losses, we will indemnify Viacom for the next \$4 million of such losses. We also agreed to assume liabilities attributable to our current and former employees in Viacom's excess defined benefit pension plan, with the amount of such assumed liability capped at \$800,000.

On January 1, 2006, Viacom announced that it had completed a transaction (the "Viacom Split") to separate itself into two publicly traded entities: CBS Corporation and New Viacom Inc. ("New Viacom"). As a result of the Viacom Split, the assets and liabilities of our employees under Viacom's qualified defined benefit pension plan were transferred to a New Viacom qualified defined benefit pension plan that is sponsored by New Viacom. In addition, the liabilities of our employees under Viacom's excess defined benefit pension plan were transferred to New Viacom's excess defined benefit pension plan that is sponsored by New Viacom. New Viacom's defined benefit pension plans have essentially the same terms and provisions as Viacom's defined benefit pension plans and will be administered by New Viacom. Plan participants who are our employees but were previously participating in Viacom's plan will be eligible to receive accrued benefits under the New Viacom defined benefit pension plans in accordance with their terms upon their separation from service with us.

Table of Contents**Fiscal 2008 Nonqualified Deferred Compensation**

The following table provides information related to the nonqualified deferred compensation of our named executive officers for fiscal 2008.

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last FYE (\$)
James W. Keyes, Stock Purchase Repayment Right					\$ 676,954(1)
Thomas M. Casey					
Eric H. Peterson					

- (1) Pursuant to his employment agreement, Mr. Keyes purchased \$3,000,000 worth of shares of our Class A common stock within thirty days after the date of commencement of his employment. Mr. Keyes' employment agreement provides that, if Mr. Keyes is terminated without cause or for good reason prior to the first anniversary of the commencement date of his employment and the \$3,000,000 worth of shares of our Class A common stock that he purchased after his commencement of employment has decreased in value, then we will pay him the difference between the market value of the stock on the date of purchase and the market value on the date his employment ends. This payment may be delayed until the first day of the seventh calendar month following his termination of employment if required by Section 409A of the Internal Revenue Code. The amount in the table above assumes that Mr. Keyes was terminated on January 6, 2008, in which case the closing market price on January 4, 2008 (the most recent business day prior to January 6, 2008, which was not a business day) of \$3.42 was less than the prices paid by Mr. Keyes when he bought the shares, which ranged from \$4.22 to \$4.55.

Mr. Keyes' Stock Purchase Repayment Right

As more fully described below in the section entitled "Employment Contracts and Potential Payments Upon Termination or Change-in-Control Employment Agreement with Chairman and CEO" if, prior to July 2, 2008, Mr. Keyes' employment is terminated without cause (as defined below and in his employment agreement) or for good reason (as defined below and in his employment agreement) and the \$3,000,000 worth of shares of our Class A common stock that he was required to purchase pursuant to his employment agreement has decreased in value, we will pay him the difference between the market value of the stock on the date of purchase and the market value on the date his employment ends.

Our Excess Investment Plan

Our Excess Investment Plan permits eligible employees to defer salary and bonus compensation in addition to amounts that would otherwise be allowed under our tax-qualified 401(k) plan based on the Internal Revenue Code's qualified plan compensation limits. The plan is a nonqualified deferred compensation plan and is intended to comply with the requirements of Section 409A of the Internal Revenue Code.

An eligible employee includes any of our employees, or the employees of our affiliates and subsidiaries, who receives annual salary and bonus compensation in an amount equal to or greater than the annual compensation limit under Section 401(a)(17) of the Internal Revenue Code (which was \$230,000 for 2008) and who is designated by the Retirement/Investments Committee that administers the plan as an employee who is eligible to participate in the plan. Each eligible employee may contribute to the plan up to 15% of each of his or her salary and bonus, which contributions are matched by us at a rate of 50% up to 5% of the participant's compensation, which is capped at \$750,000 under the plan. All contributions are fully vested at all times. Each participant's account in the plan is periodically adjusted to reflect the investment performance of the investment funds selected by such participant for amounts contributed to our 401(k) plan. Plan

Table of Contents

obligations are a general unsecured liability, and we have not established a trust to hold any assets to meet our future obligations under the plan. The table below shows the funds that were available under our 401(k) plan during the 2008 plan year and their annual rate of return for the calendar year ended December 31, 2008, as reported by the administrator of the plan.

Name of Fund	Rate of Return
Blockbuster Class A Stock Fund	-67.69%
Blockbuster Class B Stock Fund	-81.10%
Principal LifeTime 2010	-30.71%
Principal LifeTime 2020	-34.08%
Principal LifeTime 2030	-36.61%
Principal LifeTime 2040	-38.48%
Principal LifeTime 2050	-39.32%
Principal LifeTime Income	-22.74%
Growth Fund of America	-39.24%
American Funds EuroPacific Growth Fund R3	-40.71%
Oppenheimer Main Street Small Cap	-38.28%
Putnam S&P 500	-37.09%
Vanguard Total Stock Market Index Fund-Signal	-36.99%
Allianz NFJ Dividend Value Admiral	-36.17%
Davis New York Venture A	-40.03%
Putnam Stable Value	4.64%
PIMCO Total Return Fund R	4.12%

For amounts deferred prior to January 1, 2005 and earnings on those amounts, the balance of each participant's account in the plan is distributed in cash after termination of employment in accordance with such participant's payment election. Participants may elect to have these amounts paid in a single lump sum in January of the first, second, third, fourth or fifth year following termination of employment, or in up to five annual installments in amounts designated by the participant beginning in January following the year of termination of employment. Payment elections may be changed up to three times during employment, and participants may change an existing payment election only one time in any calendar year.

For amounts deferred on and after January 1, 2005, and earnings on those amounts, the balance of each participant's account in the plan is distributed in cash after separation of service in accordance with such participant's payment election. Participants may elect to have these amounts paid in single lump sum in January of the first, second, third, fourth or fifth year following separation from service, or in up to five annual installments in amounts designated by the participant beginning in January following the year of separation from service. If the participant is a specified employee, any payment that is due to be made to such participant before the date that is six months after the date of the participant's separation from service will be delayed and paid on or about the day that is six months after the date of separation from service or, if earlier, as soon as administratively practicable following the date of such participant's death. We anticipate that each of our named executive officers will constitute specified employees. Payment elections may be changed up to three times during employment, and participants may change an existing payment election only one time in any calendar year. Any change to a participant's existing payment election may not take effect until at least 12 months after the date on which the change is made and, if the election relates to a payment due to separation from service, the payment must be deferred for at least five years from the date the payment would otherwise have been paid.

Participants may also petition the Retirement/Investments Committee for withdrawals in the event of an unanticipated and severe financial hardship or an unforeseeable emergency. Participants are not permitted to borrow from their plan accounts.

Table of Contents**Employment Contracts and Potential Payments Upon Termination or Change-in-Control**

We have entered into employment agreements with our named executive officers. The following discussion provides an overview of these agreements; it is not a complete description of all terms of the agreements. Mr. Keyes' employment agreement was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on July 2, 2007. For the location of the other agreements discussed below in our public SEC filings, please refer to the exhibit index in our annual report on Form 10-K for the year ended January 4, 2009, filed with the SEC on April [], 2009 and available on our public website.

Employment Agreement with Chairman and CEO

In connection with Mr. Keyes' appointment as Chairman of the Board and Chief Executive Officer, we entered into an employment agreement with him. Pursuant to the employment agreement, Mr. Keyes' employment commenced on July 2, 2007, and the term of the employment agreement is three years. Mr. Keyes' employment agreement provides that he will receive an annual salary, to be determined by the Board, of not less than \$750,000 per year and will be entitled to receive, in addition to his base salary, an annual bonus opportunity in an amount not less than \$500,000, subject to the terms of Blockbuster's Senior Bonus Plan. With respect to the bonus applicable to 2007, Mr. Keyes received a pro rata amount of the bonus based on his period of employment during 2007 because, although Mr. Keyes was entitled under his employment agreement to receive a higher bonus if he was so entitled pursuant to the terms of the Senior Bonus Plan, we did not achieve the performance goals based on adjusted operating income and online subscriber growth during 2007 that might have triggered a larger payment. For 2008, he received a bonus of \$402,500, which is 80.5% of his 2008 target bonus. Mr. Keyes and all participants in the Senior Bonus Plan were paid bonuses of 80.5% of bonus targets for 2008 under approved performance measures as a result of our failure to achieve targets related to adjusted operating income and total net revenue. Each year, the bonus will be paid in the form of fully vested shares of our Class A common stock.

Pursuant to the employment agreement, Mr. Keyes also received stock options to purchase a number of shares of our Class A common stock equal to 4.0% of the aggregate number of shares of our Class A common stock and our Class B common stock issued and outstanding on the commencement date of his employment. Such stock options will vest over a three-year period, with one-third of the stock options vesting on each anniversary of the commencement date of his employment, unless Mr. Keyes' employment terminates earlier under certain circumstances described below or we experience certain corporate transactions explained in greater detail below. One-third of the stock options were granted at an exercise price equal to the average of the opening market price and the closing market price of our Class A common stock on the date of commencement of his employment. With respect to the remaining two-thirds of the stock options, (1) one-third of such remaining stock options were granted at an exercise price equal to 15% above the average of the opening market price and the closing market price of our Class A common stock on the date of commencement of his employment; (2) one-third of such remaining stock options were granted at an exercise price equal to 15% above the exercise price determined in accordance with clause (1) of this sentence; and (3) one-third of such remaining stock options were granted at an exercise price equal to 15% above the exercise price determined in accordance with clause (2) of this sentence. In addition, on the date of commencement of Mr. Keyes' employment, we issued him \$3,000,000 worth of restricted share units, which restricted share units will vest in full on the third anniversary of the commencement date of his employment, unless Mr. Keyes' employment terminates earlier under certain circumstances as described below or we experience certain corporate transactions explained in greater detail below. Mr. Keyes also agreed to purchase \$3,000,000 worth of shares of our Class A common stock within thirty days after the date of commencement of his employment or as soon thereafter as is permitted pursuant to applicable securities laws.

If Mr. Keyes' employment is terminated by the Board for cause, as defined in the employment agreement, or due to Mr. Keyes' death or disability, he will be entitled to (1) receive payment of any unpaid base salary through the date of termination; (2) receive payment for any vacation time accrued and unused as of the date of termination, pursuant to our policy; and (3) exercise his vested stock options in accordance with the terms of our 2004 Long-Term Management Incentive Plan, and all unvested options will be forfeited. In addition, all of Mr. Keyes' restricted share units will be forfeited and canceled regardless of whether they have vested.

If Mr. Keyes' employment is terminated without cause or for good reason, as defined in the employment agreement, and subject to certain exceptions described therein, (1) he will be entitled to receive payment of any unpaid base salary through the date of termination; (2) he will be entitled to receive payment of any vacation time accrued and unused as of the date of termination, pursuant to our policies; (3) he will be entitled to exercise his vested stock options in accordance with the

Table of Contents

terms of the 2004 Long-Term Management Incentive Plan, and all unvested stock options will be forfeited; (4) if such termination occurs prior to or on the first anniversary of the commencement date of his employment, one-third of his restricted share units will vest; (5) if such termination occurs after the first anniversary of the commencement date of his employment, all of his restricted share units will vest; and (6) any restricted share units not required to be vested pursuant to clauses (4) and (5) of this sentence will be forfeited and cancelled.

In addition to the above amounts, if Mr. Keyes' employment is terminated without cause or for good reason prior to the first anniversary of the commencement date of his employment and the \$3,000,000 worth of shares of our Class A common stock that he purchased after his commencement of employment has decreased in value, then we will pay him the difference between the market value of the stock on the date of purchase and the market value on the date his employment ends. This payment may be delayed until the first day of the seventh calendar month following his termination of employment if required by Section 409A of the Internal Revenue Code.

If Mr. Keyes' employment is terminated for good reason because of a sale of our online business in connection with which Mr. Keyes ceases to serve as CEO of our online business following such sale that occurs prior to or on the first anniversary of the commencement date of Mr. Keyes' employment, one-third of Mr. Keyes' stock options and one-third of his restricted share units will vest. If such termination occurs after the first anniversary but prior to or on the second anniversary of the commencement date of his employment, a total of two-thirds of Mr. Keyes' stock options and a total of two-thirds of Mr. Keyes' restricted share units will vest, and if the termination occurs after the second anniversary of the commencement date of his employment, all of Mr. Keyes' stock options and restricted share units will vest.

If Mr. Keyes resigns from his employment other than for good reason, he will be entitled to (1) receive payment of any unpaid base salary through the date of termination; (2) receive payment of any vacation time accrued and unused as of the date of termination, pursuant to our policies; and (3) exercise and/or settle his vested stock options and vested restricted share units. Any unvested stock options or unvested restricted share units will be forfeited and canceled.

In the event of a change of control of us, as defined in the employment agreement, our liquidation, or a sale of all or substantially all of our assets (collectively, a Corporate Event) that occurs prior to or on the first anniversary of the commencement date of Mr. Keyes' employment, one-third of Mr. Keyes' stock options and one-third of his restricted share units will vest. If a Corporate Event occurs after the first anniversary but prior to the second anniversary of the commencement date of his employment, a total of two-thirds of Mr. Keyes' stock options and a total of two-thirds of Mr. Keyes' restricted share units will vest, and if a Corporate Event occurs after the second anniversary of the commencement date of his employment, all of Mr. Keyes' stock options and restricted share units will vest.

Pursuant to the employment agreement, the delivery of shares attributable to restricted share units that vest because of any termination of Mr. Keyes' employment may be delayed until the first day of the seventh calendar month following his termination of employment if required by Section 409A of the Internal Revenue Code.

The employment agreement also contains customary non-disclosure/non-disparagement and one-year non-competition provisions.

Mr. Keyes' employment agreement generally uses the following terms:

Cause means (1) an act of dishonesty that is detrimental to our best interests or those of our affiliates; (2) willful conduct that involves an immoral act that impairs our reputation or that of our affiliates; (3) willful disloyalty to us; (4) willful refusal to follow the lawful directions of the Board; (5) neglect of his assigned duties and responsibilities; (6) his indictment of any felony under federal, state or local law or the Board's determination that he engaged in sexual harassment or violated Federal securities laws; (7) the repeated use of a controlled substance without a prescription or the repeated use of alcohol which impairs his ability to carry out his duties and responsibilities; (8) the violation of any of our material policies; or (9) the material breach of the employment agreement.

Table of Contents

Change of Control means the consummation of any transaction (including any sale of stock, merger, consolidation or spinoff) resulting in any person, other than us, one of our subsidiaries or one of our employee benefit plans, becoming the beneficial owner of more than 50% of our voting stock.

Disability means, as reasonably determined by the Board, his physical or mental incapacity that renders him unable to perform the essential functions of his duties for 60 consecutive days or 80 days in any 12 month period, even with reasonable accommodation.

Good Reason means a termination initiated by Mr. Keyes within 60 days following the occurrence of (1) a significant reduction in his title, duties, or responsibilities that occurs without his consent; or (2) a sale of our online business in connection with which Mr. Keyes ceases to serve as CEO of our online business following such sale.

The following table quantifies the payments to which Mr. Keyes is entitled upon termination, change-in-control, death and disability. In determining the estimated amount of these payments, the following assumptions were used: (1) the triggering event took place on January 4, 2009; and (2) the price per share of our Class A common stock was \$1.30, which was the closing market price on January 2, 2009. Because the price per share of our Class A common stock on January 2, 2009 was less than the exercise prices of Mr. Keyes' stock options, no value has been assigned in the table for any acceleration of stock options in connection with a termination of Mr. Keyes' employment.

Estimated Payments	Voluntary Termination	Termination for Cause	Termination Without Cause	Termination for Good Reason	Change in Control Resulting in Termination	Change in Control Not Resulting in Termination	Death	Disability
Acceleration of Stock Options								
Acceleration of Restricted Share Units			\$ 874,440(1)	\$ 874,440(1)	\$ 874,440(1)	\$ 874,440(1)		
Stock Purchase Repayment			\$ 676,954	\$ 676,954				
TOTAL			\$ 1,443,770	\$ 1,443,770	\$ 766,815	\$ 766,815		

(1) Represents the accelerated vesting of Mr. Keyes' 672,646 outstanding restricted share units calculated by multiplying \$1.30, the closing market price of our Class A common stock on January 2, 2009, by 672,646.

Employment Agreements with Other Named Executive Officers

Mr. Casey's and Mr. Peterson's employment agreements generally use the following terms:

Cause means (1) an act of dishonesty that is detrimental to our best interests or those of our affiliates; (2) willful conduct that involves an immoral act that impairs our reputation or that of our affiliates; (3) willful disloyalty to us; (4) willful refusal to follow the lawful directions of the Board; (5) neglect of his assigned duties and responsibilities; (6) his indictment of any felony under federal, state or local law or the Board's determination that he engaged in sexual harassment or violated Federal securities laws; (7) the repeated use of a controlled substance without a prescription or the repeated use of alcohol which impairs his ability to carry out his duties and responsibilities; (8) the violation of any of our material policies; or (9) his material breach of the employment agreement.

Disability means, as reasonably determined by the B