



Blockbuster has 'substantial doubt' it can remain solvent

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By David Lieberman, USA TODAY

NEW YORK — One of the most compelling dramas at Blockbuster isn't available on its DVD racks. It's taking place in corporate offices as the video-rental giant scrambles to restructure its finances — an effort that many investors fear won't be sufficient to prevent it from filing for bankruptcy protection.

Those concerns sent Blockbuster shares plummeting 29.2% to about 28 cents on Wednesday. The company said in its annual report for 2009, released late Tuesday, that its continuing losses and backbreaking debt raise "substantial doubt" about its ability to remain solvent.

"For the first time they're publicly using the 'B' word," for bankruptcy, says Kenneth Latz, a turnaround specialist with financial consulting firm Conway MacKenzie.

But Blockbuster CFO Tom Casey says the company is "confident" that it has enough cash and resources to make its payments — including an interest payment approaching on April 1.

Blockbuster ended 2009 with nearly \$1 billion in debt. The chain that once made Hollywood moguls tremble saw its net loss rise 20.7% to \$437.7 million in the fourth quarter on revenue of \$1.1 billion, down 17.5% from the same period in 2008.

This year continues to look gloomy. Faced with growing competition from Redbox's \$1-a-night DVD rental kiosks, Netflix and a host of Internet and cable video-on-demand services, Blockbuster says that sales at its stores open a year or more will continue to fall in 2010.

It has a little more than 4,000 stores — that includes franchises as well as ones it owns — after closing 567 last year. Blockbuster plans to close an additional 250 stores in 2010.

A bankruptcy wouldn't necessarily affect consumers. "Most bankruptcies aren't liquidations," says Maggie Taylor, a senior credit officer with debt rating firm Moody's Investors Service.

But Blockbuster's stores, once its biggest asset, have become "a significant liability" in the digital age, Latz says. "That's the problem that needs to be remedied." For example, the chain could ask a bankruptcy court to let it out of the leases it has signed for its stores.

Casey, seeking to ease concerns about Blockbuster's future, says the warning about a potential bankruptcy is "cautionary language" that it is "required to make" to comply with federal securities law when there's a chance that it may default on a loan.

He adds that the company is talking with debt holders and major customers, including Hollywood studios, about changes in their deals that might relieve the financial pressure on Blockbuster.

Meanwhile he says that Blockbuster remains a "strong cash generator" that can keep up with changes in home video. The company expects to continue rolling out DVD rental kiosks in a partnership with NCR — to 10,000 by year end from about 3,000 today.

It also plans to build up its business renting DVDs by mail, similar to Netflix, and offering digital downloads.