

BLOCKBUSTER INC  
Form DEF 14A  
July 06, 2004  
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**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:

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**Blockbuster Inc.**

(Name of Registrant as Specified In Its Charter)

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

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(1) Amount Previously Paid:

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July 6, 2004

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Blockbuster Inc. to be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time.

The attached Notice of Annual Meeting and Proxy Statement describes the formal business to be transacted at the meeting. Directors and officers of Blockbuster will be present to help host the meeting and to respond to any questions that our stockholders may have. I hope you will be able to attend.

Blockbuster's Board of Directors believes that a favorable vote on each of the matters to be considered at the meeting is in the best interests of Blockbuster and its stockholders and unanimously recommends a vote FOR each such matter. Accordingly, we urge you to review the accompanying material carefully and to return the enclosed proxy card promptly.

Please complete, sign, date and return the enclosed proxy card without delay. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

I look forward to seeing you at the meeting.

Sincerely,  
John F. Antioco  
*Chairman of the Board and*

*Chief Executive Officer*

Blockbuster Inc. Renaissance Tower 1201 Elm Street Dallas, TX 75270-2102 Phone: (214) 854-3000

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**BLOCKBUSTER INC.**

**1201 Elm Street**

**Dallas, Texas 75270**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD JULY 20, 2004**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Blockbuster Inc., a Delaware corporation, will be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time, for the following purposes:

- (1) The election of three Class II directors;
- (2) The adoption of the Second Amended and Restated Certificate of Incorporation of Blockbuster Inc.;
- (3) The approval of the Blockbuster Inc. Amended and Restated 1999 Long-Term Management Incentive Plan;
- (4) The approval of the Blockbuster Inc. 2004 Long-Term Management Incentive Plan;
- (5) The approval of the Blockbuster Inc. Amended and Restated Senior Executive Short-Term Incentive Plan;
- (6) The approval of the Blockbuster Inc. Compensation Plan for Non-Employee Directors (the Non-Employee Director Compensation Plan );
- (7) The approval of the Blockbuster Inc. Amended and Restated Chairman s Award Plan;
- (8) The ratification of the appointment of PricewaterhouseCoopers LLP as Blockbuster s independent auditors for fiscal 2004; and
- (9) The transaction of such other business as may properly come before the meeting or any adjournment thereof.

The close of business on June 15, 2004 has been fixed as the record date for determining stockholders entitled to notice of and to vote at the meeting or any adjournment thereof. 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 stockholder during ordinary business hours at Blockbuster s corporate headquarters located at 1201 Elm Street, Dallas, Texas 75270.

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WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN PROMPTLY THE ENCLOSED PROXY CARD IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. PROXIES FORWARDED BY OR FOR BROKERS OR FIDUCIARIES SHOULD BE RETURNED AS REQUESTED BY THEM.

By Order of the Board of Directors,  
Marilyn R. Post  
*Vice President and Secretary*

Dallas, Texas

July 6, 2004

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**BLOCKBUSTER INC.**

**1201 Elm Street**

**Dallas, Texas 75270**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held July 20, 2004**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Blockbuster Inc. for use at the Annual Meeting of Stockholders of the Company to be held at The New York Palace Hotel, 455 Madison Avenue, Le Cirque 2000 in the L Orangerie Room, New York, New York, on Tuesday, July 20, 2004, at 11:00 a.m., Eastern Time, or at such other time and place to which the meeting may be adjourned. The approximate date on which this Proxy Statement and accompanying proxy are first being sent or given to stockholders is July 6, 2004. Blockbuster Inc. will be referred to as Blockbuster or the Company in this Proxy Statement.

All shares represented by valid proxies, unless the stockholder specifies otherwise, will be voted as follows:

FOR the election of the three persons named under Proposal I Election of Directors as nominees for election as Class II directors;

FOR the proposal to adopt the Second Amended and Restated Certificate of Incorporation of Blockbuster Inc.;

FOR the proposal to approve the Blockbuster Inc. Amended and Restated 1999 Long-Term Management Incentive Plan ( Amended and Restated LTMIP );

FOR the proposal to approve the Blockbuster Inc. 2004 Long-Term Management Incentive Plan (the 2004 LTMIP );

FOR the proposal to approve the Blockbuster Inc. Amended and Restated Senior Executive Short-Term Incentive Plan (the Amended and Restated Senior Executive STIP );

FOR the proposal to approve the Blockbuster Inc. Compensation Plan for Non-Employee Directors (the Non-Employee Director Compensation Plan );

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FOR the proposal to approve the Blockbuster Inc. Amended and Restated Chairman's Award Plan; and

FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal 2004.

The Board of Directors knows of no other business to be presented at the meeting. If any other business is properly presented, the persons named in the enclosed proxy have authority to vote on such matters in accordance with such persons' discretion. Where a stockholder has appropriately specified how a proxy is to be voted, it will be voted accordingly.

A stockholder executing a proxy retains the right to revoke it at any time prior to exercise at the meeting. A proxy may be revoked by delivery of written notice of revocation to the Secretary of the Company, by execution and delivery of a later proxy, or by voting the shares in person at the meeting.

### **VOTING SECURITIES AND RECORD DATE**

The Company has two classes of common stock outstanding: Class A Common Stock, which is entitled to one vote per share; and Class B Common Stock, which is entitled to five votes per share. Except as discussed below under "Quorum and Voting Required Vote Proposal II" with respect to the proposal to adopt the

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Second Amended and Restated Certificate of Incorporation of Blockbuster Inc., the holders of Class A Common Stock and Class B Common Stock vote together as a single class on the matters to be considered at the meeting, and their votes are counted and totaled together. The record date for determining the stockholders entitled to notice of and to vote at the meeting and any adjournment thereof was the close of business on June 15, 2004, at which time the Company had issued and outstanding 37,097,626 shares of Class A Common Stock and 144,000,000 shares of Class B Common Stock.

As of the record date, Viacom Inc. beneficially owned 3,600,352 shares of the Company's Class A Common Stock and all of the outstanding shares of the Company's Class B Common Stock, which constitutes approximately 95.6% of the combined voting power of the Company. As a result, Viacom is able, acting alone, to approve the proposals submitted for approval at the meeting. Viacom has agreed that it will vote in favor of each of the proposals listed above.

Viacom's Board of Directors has authorized the divestiture of its approximately 81.5% equity interest in the Company. In connection with the divestiture, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission on June 18, 2004. As a result of the divestiture, Blockbuster will be an independent entity.

## **QUORUM AND VOTING**

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

### **Broker Voting**

Brokers holding shares of record for a customer have the discretionary authority to vote on some matters if they do not receive timely instructions from the customer regarding how the customer wants the shares voted. There are also some matters with respect to which brokers do not have discretionary authority to vote if they do not 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, what is referred to as a broker non-vote results. Any broker non-vote will be counted as present at the meeting for purposes of determining a quorum, but will be treated as not entitled to vote with respect to certain matters. Therefore, a broker non-vote will not count as a vote in favor of or against such matters and, accordingly, will not affect the outcome of the vote. With respect to Proposal II Adoption of the Second Amended and Restated Certificate of Incorporation of Blockbuster Inc., any broker non-vote will have the same effect as a vote against such proposal. Brokers will have discretionary authority to vote on Proposals I and VIII in the absence of timely instructions from their customers. Brokers will not have discretionary authority to vote on Proposals II through VII.

### **Required Vote**

#### *Proposal I*

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To be elected, each nominee for election as a Class II director must receive the affirmative vote of a plurality of the votes of the shares of Common Stock present or represented at the meeting and entitled to vote on such proposal. Votes may be cast in favor of or withheld with respect to each nominee. Votes that are withheld will be counted toward a quorum, but will be excluded entirely from the tabulation of votes for such proposal and, therefore, will not affect the outcome of the vote on such proposal.

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***Proposal II***

Approval of the amendments to the Company's Amended and Restated Certificate of Incorporation, as proposed to be effected by the adoption of the Second Amended and Restated Certificate of Incorporation of the Company, requires the affirmative vote of not less than 75% of the combined voting power of the shares of Class A Common Stock and Class B Common Stock outstanding and entitled to vote thereon and the vote of the holders of a majority in voting power of the shares of Blockbuster's Class B Common Stock outstanding as of the Record Date, voting as a separate class. Abstentions may be specified on Proposal II and will have the same effect as a vote against such proposal.

***Proposals III through VIII***

Each of the proposals to (i) approve the Amended and Restated LTMIP, (ii) approve the 2004 LTMIP, (iii) approve the Amended and Restated Senior Executive STIP, (iv) approve the Non-Employee Director Compensation Plan, (v) approve the Amended and Restated Chairman's Award Plan and (vi) ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for fiscal 2004 requires the affirmative vote of the holders of a majority of the votes of the Common Stock present or represented at the meeting and entitled to vote on such proposals. The rules of the New York Stock Exchange further require that at least a majority of the votes of shares of Common Stock entitled to vote must be cast with respect to the proposal to approve the 2004 LTMIP, and approval of such proposal requires the affirmative vote of the holders of a majority of the votes so cast. Abstentions may be specified on each of proposals III through VIII and will have the same effect as a vote against such proposals.

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**PROPOSAL I**

**ELECTION OF DIRECTORS**

The Company's Amended and Restated Certificate of Incorporation provides for a Board of Directors divided into three classes, as nearly equal in number as possible, with the term of office of one class expiring each year at the Company's Annual Meeting of Stockholders. Each class of directors is elected for a term of three years, except in the case of elections to fill vacancies or newly created directorships.

Based on the recommendation of the Nominating Committee, the Board of Directors has proposed three nominees for election as Class II directors to be elected for terms expiring at the Company's Annual Meeting of Stockholders in 2007 or until their successors have been elected and qualified. All duly submitted and unrevoked proxies will be voted for the nominees set forth below, except where authorization to so vote is withheld. If, for any reason, any of the nominees becomes unavailable for election, the holders of the proxies may exercise discretion to vote for substitutes proposed by the Board of Directors. Each of the nominees has indicated his willingness to serve as a member of the Board of Directors if elected. Proxies cannot be voted for more than three nominees.

Effective as of the time that Viacom owns shares representing not more than 50% of the total voting power of the Company, the members of the Board of Directors of the Company who are also directors or officers of Viacom will resign from the Company's Board of Directors. These individuals are: Sumner M. Redstone, Chairman of the Board of Directors and Chief Executive Officer of Viacom; Richard J. Bressler, Senior Executive Vice President and Chief Financial Officer of Viacom; Philippe P. Dauman, member of Viacom's board of directors; and Michael D. Fricklas, Executive Vice President, General Counsel and Secretary of Viacom. In accordance with the Company's bylaws, these vacancies will be filled by a vote of the majority of the Company's directors remaining in office and/or the authorized number of directors on the Company's Board of Directors will be reduced. The Board of Directors of the Company has not yet identified the individuals who will fill these vacancies or what changes, if any, it will make to the size of the Board of Directors.

Information concerning the three nominees proposed by the Board of Directors for election as Class II directors, along with information concerning the present Class III and Class I directors whose terms of office will continue after the meeting, is set forth below.

The nominees for election as Class II directors are as follows:

**Class II Nominees Terms Expiring in 2007**

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Michael D. Fricklas	44	Director
John L. Muething	82	Director
Sumner M. Redstone	81	Director

The present directors whose terms are scheduled to expire after 2004 are as follows:

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**Class III Directors Terms Expiring in 2005**

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
John F. Antioco	54	Chairman of the Board and Chief Executive Officer
Linda Griego	56	Director

**Class I Directors Terms Expiring in 2006**

<u>Name</u>	<u>Age</u>	<u>Current Position</u>
Richard J. Bressler	46	Director
Jackie M. Clegg	42	Director
Philippe P. Dauman	50	Director

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Set forth below is a description of the background of each of the directors of the Company.

**John F. Antioco** has served as the Company's Chairman of the Board of Directors and Chief Executive Officer since 1997 and served as its President from 1997 until 2001. From 1996 until 1997, Mr. Antioco served as President and Chief Executive Officer for Taco Bell Corporation. Mr. Antioco serves as Chairman of the Board of Directors of Main Street and Main Incorporated and is a member of the Board of Governors of the Boys & Girls Clubs of America.

**Richard J. Bressler** was elected as a director of the Company in May 2001. Mr. Bressler has served as Senior Executive Vice President and Chief Financial Officer of Viacom Inc. since 2001. Prior to joining Viacom Inc., Mr. Bressler served as Executive Vice President of AOL Time Warner Inc. and Chief Executive Officer of AOL Time Warner Investments. Prior to that, Mr. Bressler served in various capacities with Time Warner Inc., including Chairman and Chief Executive Officer of Time Warner Digital Media. He also served as Executive Vice President and Chief Financial Officer of Time Warner Inc. from 1995 until 1999. Mr. Bressler serves on the National Advisory Committee of JPMorgan Chase.

**Jackie M. Clegg** was appointed as a director of the Company in July 2003. In September 2001, she formed the international strategic consulting firm Clegg International Consultants, LLC specializing in emerging markets. In July 2001, Ms. Clegg stepped down as Vice Chairman and First Vice President of the Export-Import Bank of the United States, after serving in that role since June 1997. She also served as its Chief Operating Officer from January 1999 through fiscal year 2000. Ms. Clegg serves on the Board of Directors of the Chicago Board of Trade.

**Philippe P. Dauman** was elected as a director of the Company in January 1995. Mr. Dauman has served as a director of Viacom Inc. since 1987 and has been Co-Chairman and Chief Executive Officer of DND Capital Partners, L.L.C., a private equity firm, since 2000. Mr. Dauman served as Deputy Chairman of Viacom Inc. from 1996 until 2000 and as its Executive Vice President from 1994 until 2000. From 1993 until 1998, Mr. Dauman also served as General Counsel and Secretary of Viacom Inc. Mr. Dauman is a director of Lafarge North America Inc. and National Amusements, Inc.

**Michael D. Fricklas** was appointed as a director of the Company in June 2004. Mr. Fricklas has served as Executive Vice President, General Counsel and Secretary of Viacom Inc. since May 2000. From October 1998 to May 2000, he served as Senior Vice President, General Counsel and Secretary of Viacom Inc. and from July 1993 to October 1998, he served as Vice President, Deputy General Counsel of Viacom Inc.

**Linda Griego** was elected as a director of the Company in July 1999. Ms. Griego has served as President of Zapgo Entertainment Group, LLC, a television programming production company, since 1997 and is the Managing General Partner of Engine Co. No. 28, a restaurant that she founded in 1988. From July 1999 until January 2000, Ms. Griego served as the interim President and Chief Executive Officer of the Los Angeles Community Development Bank, a \$430 million federally funded community bank. From 1994 until 1997, Ms. Griego served as President and Chief Executive Officer of Rebuild LA, Inc., an economic development corporation. Ms. Griego is a director of Granite Construction Incorporated and Southwest Water Company and also serves as a Los Angeles director of the Federal Reserve Bank of San Francisco.

**John L. Muething** was elected as a director of the Company in July 1999. Mr. Muething has been Of Counsel to the Cincinnati, Ohio law firm of Keating, Muething & Klekamp since 1986. He also served as a director of Spelling Entertainment Group Inc. from 1992 until 1999.



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**Sumner M. Redstone** was elected as a director of the Company in May 1999. Mr. Redstone has been a director of Viacom Inc. since 1986 and Chairman of the Board of Viacom Inc. since 1987 and acquired the title of Chief Executive Officer of Viacom Inc. in 1996. Mr. Redstone has served as Chairman of the Board of National Amusements, Inc. since 1986 and as its Chief Executive Officer since 1967. He also served as President

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of National Amusements, Inc. from 1967 through 1999. Mr. Redstone is a member of the Advisory Council for the Academy of Television Arts and Sciences Foundation and is on the Board of Trustees for The Museum of Television and Radio. Mr. Redstone served as the first Chairman of the Board of the National Association of Theatre Owners and is currently a member of its Executive Committee. Since 1982, Mr. Redstone has been a member of the faculty of Boston University Law School, where he has lectured on entertainment law, and since 1994, he has been a Visiting Professor at Brandeis University. He has also been a frequent lecturer at colleges, including Harvard Law School. Mr. Redstone graduated from Harvard University in 1944 and received an LL.B. from Harvard University School of Law in 1947. Upon graduation, Mr. Redstone served as Law Secretary with the U.S. Court of Appeals, and then as a Special Assistant to the U.S. Attorney General.

**The Board of Directors recommends a vote FOR the election of the nominees for Class II Director named above.**

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### **CORPORATE GOVERNANCE**

The business of the Company is managed under the direction of its Board of Directors. The Board of Directors meets on a regularly scheduled basis to review significant developments affecting the Company and to act on matters requiring Board approval. It also holds special meetings when an important matter requires Board action between regularly scheduled meetings. The Board of Directors met seven times and acted by unanimous written consent eight times during the 2003 fiscal year. During the 2003 fiscal year, each member of the Board of Directors participated in at least 75% of the aggregate number of Board meetings and applicable committee meetings held during the period for which he or she was a director.

In January 2004, the Board of Directors adopted Corporate Governance Guidelines of the Company. A copy of the Company's Corporate Governance Guidelines is available on the Company's website at <http://investor.blockbuster.com> and is also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas, TX 75270.

### **Business Conduct Statement and Supplemental Code of Ethics**

In January 2004, the Board of Directors adopted a Business Conduct Statement that applies to all of the Company's employees and directors and a Supplemental Code of Ethics that applies specifically to the Company's Chief Executive Officer, Chief Financial Officer and Controller (the Senior Financial Officers). The Business Conduct Statement and the Supplemental Code of Ethics are available on the Company's website at <http://investor.blockbuster.com> and are also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas TX 75270. The Company intends to disclose any amendment to or waiver from the Supplemental Code of Ethics applicable to any Senior Financial Officer on a Form 8-K or on its website at <http://investor.blockbuster.com>.

### **Independence of Directors**

Based on information solicited from each director and upon the advice and recommendation of the Company's Nominating and Corporate Governance Committees, the Board of Directors has determined that three of its eight members, Jackie M. Clegg, Linda Griego and John L. Muething, are independent directors as defined by the applicable rules of both the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that each of these directors is also independent, as defined under the New York Stock Exchange's new corporate governance standards, which are discussed in the next paragraph.

The Securities and Exchange Commission recently approved new corporate governance standards for companies listed on the New York Stock Exchange. These standards will become effective for the Company on July 20, 2004, the date of the Company's 2004 Annual Meeting of Stockholders. These new corporate governance standards require listed companies to, among other things, have (i) a majority of independent directors; (ii) a nominating/corporate governance committee composed entirely of independent directors; and (iii) a compensation committee composed entirely of independent directors. Controlled companies, as defined by such rules, may take advantage of exemptions with respect to any or all of these requirements. The Company's Board of Directors has determined that Blockbuster is a controlled company on the basis that Viacom Inc. beneficially owns more than 50 percent of the voting power in the Company. To comply with the New York Stock Exchange's new corporate governance standards, the Company intends to initially rely on the exemption for controlled companies with respect to the requirements described in (i) and (ii) above. The Company's Senior Executive Compensation Committee is composed entirely of independent directors in accordance with its charter and the new corporate governance standards of the New York Stock Exchange.



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### **Executive Sessions and the Presiding Director**

The Corporate Governance Guidelines of the Company provide for regular executive sessions of the non-management directors without management participation, as well as regular executive sessions where independent directors meet separately. Consistent with the rules of the New York Stock Exchange, a non-management director is a director who is not an officer of the Company within the meaning of Rule 16a-1(f) under the Securities Act of 1933, as amended. An independent director is a director who is independent, as defined by the rules of the New York Stock Exchange. The Corporate Governance Guidelines of the Company designate the Chair of the Audit Committee as the presiding director at such meetings.

### **Communications with Directors**

Stockholders and other interested parties may communicate directly with the Audit Committee and the Board's non-management directors by calling The Network hotline 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 directly receive such communications. In addition, stockholders may send communications to the Board of Directors by mail, by writing to Board of Directors, Blockbuster Inc., 1201 Elm Street, Dallas, TX 75270. The Executive Vice President and General Counsel of the Company receives all such mailed communications initially and forwards all such communications to the applicable director or directors.

### **Director Attendance at Annual Meetings**

The Company's Corporate Governance Guidelines, as adopted in January 2004, provide that directors are expected to attend the Company's Annual Meeting of Stockholders. At the Company's last meeting, which was held on May 20, 2003, three directors were in attendance.

### **Committees of the Board of Directors**

The Board of Directors has established standing audit, senior executive compensation, compensation, nominating and corporate governance committees to devote attention to specific subjects and to assist it in the discharge of its responsibilities. The functions of each of these committees and their current members, as well as the number of meetings held by these committees during the 2003 fiscal year, are described below. The Board of Directors has adopted written charters for each of these committees, which charters are available on the Company's website at <http://investor.blockbuster.com> and are also available in print to any stockholder who sends a request to Blockbuster Inc., Attn: Investor Relations, 1201 Elm Street, Dallas, TX 75270. In addition to the standing committees, the Board of Directors established a special committee of disinterested directors in November 2003 to assist the Company with a possible change in control transaction involving the Company.

### ***Audit Committee***

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to (i) the quality and integrity of the Company's financial reports and other financial information provided by the Company to its stockholders, the public

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and others; (ii) the Company's compliance with legal and regulatory requirements; (iii) the independent auditors' qualifications, independence and performance; and (iv) the performance of the Company's internal audit function, including its systems of internal controls. The Audit Committee's duties and responsibilities include:

direct responsibility for the appointment, compensation, retention and oversight of the work of the Company's independent auditors, including the authority to pre-approve all services to be provided by the independent auditors and the related fees;

reviewing the scope and results of the independent auditors' audit of the Company's annual financial statements and the proposed scope and plan of the work to be done by the Company's internal audit group;

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reviewing and discussing with management and the Company's independent auditors the Company's annual audited financial statements and quarterly financial statements;

reviewing and discussing with management, the Company's independent auditors and the Company's internal audit group the adequacy and effectiveness of the Company's system of internal controls; and

reviewing material legal matters and the adequacy and effectiveness of the Company's procedures to ensure compliance with its legal and regulatory responsibilities.

The Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter, as amended in January 2004, is attached to this Proxy Statement as Appendix A.

The Audit Committee consists of three directors. The current members of the Audit Committee are Ms. Griego (Chair), Ms. Clegg, and Mr. Muething. The Board of Directors has determined that each of these directors is independent as defined by the applicable rules of both the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that each of these directors is also independent, as defined under the New York Stock Exchange's new corporate governance standards, as discussed in more detail above under Independence of Directors. The Board of Directors also has determined that each of these directors is financially literate as interpreted by the Board of Directors in its business judgment and that Ms. Clegg further qualifies as an audit committee financial expert, as such term is defined in the applicable rules of the Securities and Exchange Commission.

Mr. Dauman served as an additional member of the Audit Committee during 2003. Although Mr. Dauman served as an executive officer of Viacom Inc. until May 2000, the Board of Directors determined in its business judgment that Mr. Dauman's membership on the Audit Committee was required by the best interests of the Company and its stockholders due to his extensive industry and business expertise. The Board of Directors also determined in its business judgment that Mr. Dauman's former position as an executive officer of Viacom Inc. did not interfere with his exercise of independent judgment. Therefore, Mr. Dauman was appointed a member of the Audit Committee during 2003 pursuant to the override provision contained in the New York Stock Exchange rules effective at such time. In anticipation of the effectiveness of the new corporate governance standards of the New York Stock Exchange relating to independence, Mr. Dauman resigned from the Audit Committee in February 2004. The Audit Committee met fifteen times during the 2003 fiscal year.

The Audit Committee has established pre-approval policies and procedures with respect to audit and non-audit services by the Company's independent auditors, which are described below under Audit Committee and Independent Auditors Pre-Approval Policies and Procedures.

### ***Senior Executive Compensation Committee***

The functions of the Senior Executive Compensation Committee include: (i) reviewing and approving the compensation of the Company's executives who are subject to the requirements of Section 16 of the Securities Exchange Act of 1934, as amended, or who are covered by the regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended; (ii) making recommendations to the Board of Directors of the Company with respect to non-CEO compensation, incentive compensation plans and equity-based plans; (iii) reviewing and approving corporate goals and objectives relevant to the compensation of the Company's Chief Executive Officer and evaluating the Chief Executive Officer's performance in light of those goals and objectives; and (iv) approving the compensation level for the Chief Executive Officer. Mr. Muething (Chair), Ms. Clegg and Ms. Griego are members of the Senior Executive Compensation Committee. The Senior Executive Compensation Committee met five times and acted by unanimous written consent three times during the 2003 fiscal year.





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### ***Compensation Committee***

Subject to the authority of the Board of Directors, and except with respect to matters entrusted to the Company's Senior Executive Compensation Committee, the functions of the Compensation Committee include: (i) assisting management in defining and overseeing the Company's general compensation practices; (ii) reviewing and approving the forms of employment agreements for employees at the level of vice president and above; (iii) approving the Company's incentive compensation plans, subject to stockholder approval where appropriate; and (iv) overseeing certain of the Company's other employee benefit programs. Messrs. Dauman (Chair), Muething and Redstone, and Ms. Clegg and Ms. Griego are members of the Compensation Committee. The Compensation Committee met five times during the 2003 fiscal year.

### ***Nominating Committee***

The Board of Directors established a Nominating Committee in February 2003. The primary functions of the Nominating Committee include: (i) assisting the Board of Directors by identifying individuals qualified to become Board members and (ii) recommending to the Board of Directors the director nominees for election at each annual meeting of stockholders.

The Nominating Committee adopted a Nominating Committee Policy for Identifying and Evaluating Candidates for Directorships in February 2004. In accordance with such policy, the Nominating Committee evaluates candidates for director nominees in the context of the current composition of the Board of Directors, 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 of Director's anticipated needs. The Nominating Committee believes that, at a minimum, all directors, as well as any nominating committee-recommended nominee, should have (i) high personal and professional integrity, (ii) the ability to read and understand basic financial statements, (iii) the ability to exercise sound business judgment, (iv) an understanding of the Company's business and the industry in which it operates, (v) a commitment to enhancing stockholder value and (vi) willingness and sufficient time to carry out their responsibilities as a member of the Board of Directors. In addition, at least one member of the Board of Directors should have accounting or related financial management expertise as determined in the Board's business judgment.

The Nominating Committee may rely on various resources to identify potential director nominees, including any input by the Company's current officers or directors, professional search firms or other persons. During 2004, the Nominating Committee retained Spencer Stuart to assist the Company in identifying and evaluating potential director nominees. The Nominating Committee will also consider director nominees recommended by the stockholders of the Company when properly submitted in accordance with the Company's bylaws. The procedures to be followed for any such recommendations are described further below under **Stockholder Proposals**. The Nominating Committee will review and evaluate such stockholder nominations taking into account the same considerations as are taken into account for other nominees. As of the date of this Proxy Statement, the Company has not received any recommendations from stockholders for nominees for the Board of Directors.

Mr. Antioco (Chair), Ms. Griego and Mr. Redstone are members of the Nominating Committee. The Board of Directors has determined that Ms. Griego is independent, as defined by both the applicable rules of the New York Stock Exchange, as currently in effect, and the Securities and Exchange Commission. In addition, the Board of Directors has determined that Ms. Griego is also independent, as defined under the New York Stock Exchange's new corporate governance standards, as discussed in more detail above under **Independence of Directors**. The Nominating Committee met one time during the 2003 fiscal year.

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*Corporate Governance Committee*

The Board of Directors established a Corporate Governance Committee in February 2003. The primary functions of the Corporate Governance Committee include: (i) monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies; (ii) reviewing the criteria to be used in connection with the self-evaluations of the Board of Directors and each of its committees and overseeing the evaluation of the Board of Directors and management; and (iii) developing and recommending to the Board of Directors and administering the Corporate Governance Guidelines of the Company. Ms. Griego (Chair), Mr. Antioco and Mr. Redstone are members of the Corporate Governance Committee. The Corporate Governance Committee met two times during the 2003 fiscal year.

*Special Committee*

The Board of Directors established a non-standing special committee in November 2003 in connection with Viacom's potential divestiture of its equity interest in the Company, as discussed in more detail above under Voting Securities and Record Date. The functions of the Special Committee include reviewing, evaluating, and making recommendations to the Board of Directors with respect to such possible transaction. Ms. Clegg (Chair), Ms. Griego and Mr. Muething are members of the Special Committee.

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**SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information with respect to the number of shares of Viacom Inc. Class A and Class B Common Stock and Blockbuster Class A and Class B Common Stock beneficially owned by (i) the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers who were serving as such on December 31, 2003 (based on salary and bonus earned during fiscal 2003), who will be referred to in this Proxy Statement as the "named executive officers"; (ii) each current director and each nominee for director of the Company; and (iii) all directors and current executive officers of the Company as a group. The following table also sets forth information with respect to the number of shares of Blockbuster Common Stock beneficially owned by each person known by the Company to beneficially own more than five percent (5%) of the outstanding shares of its Common Stock. Except as otherwise noted, (i) the persons named in the table have sole voting and investment power with respect to all shares beneficially owned by them, and (ii) ownership is as of March 31, 2004.

As of March 31, 2004, there were 132,134,587 shares of Viacom Class A Common Stock outstanding, 1,604,428,716 shares of Viacom Class B Common Stock outstanding, 37,058,607 shares of Blockbuster Class A Common Stock outstanding and 144,000,000 shares of Blockbuster Class B Common Stock outstanding.

		<b>Beneficial Ownership of Equity Securities</b>		
<b>Name</b>	<b>Title of Equity Securities</b>	<b>Number of Outstanding Shares</b>	<b>Number of Shares Underlying Options or Conversion Rights(1)</b>	<b>Percent of Class</b>
John F. Antioco	Viacom Class A Common	5,112(2)	655,974	*
	Viacom Class B Common	34,021(2)	1,551,330	4.1%
Richard J. Bressler	Blockbuster Class A Common			
	Blockbuster Class B Common	155(3)	1,050,000	*
Jackie M. Clegg	Viacom Class A Common			
	Viacom Class B Common	1,499		*
Philippe P. Dauman	Blockbuster Class A Common	2,121(3)(4)		*
	Blockbuster Class B Common	17,563(3)(5)	22,000	*
Michael D. Fricklas	Blockbuster Class A Common	3,704		*
	Blockbuster Class B Common	46(3)	462,500	*
Linda Griego	Blockbuster Class A Common	1,367(3)		
	Blockbuster Class B Common			

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	Class A Common Blockbuster	6,887	13,200	*
	Class B Common			
John L. Muething	Viacom Class A Common Viacom			
	Class B Common Blockbuster			
	Class A Common Blockbuster	10,387	14,000	*
	Class B Common			

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Name	Title of Equity Securities	Beneficial Ownership of Equity Securities		
		Number of Outstanding Shares	Number of Shares Underlying Options or Conversion Rights(1)	Percent of Class
Sumner M. Redstone(6)	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common	93,658,908(7)	10,562,500	70.9%
	Blockbuster Class B Common	104,345,171(7)	144,000,000(8)	81.5%
Nicholas P. Shepherd	Viacom Class A Common	3,576,145(8)		100.0%
	Viacom Class B Common	144,000,000(8)		
	Blockbuster Class A Common		9,000	*
	Blockbuster Class B Common	1,250	133,000	*
Edward B. Stead	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common		37,500	*
	Blockbuster Class B Common	85(2)	217,100	*
Nigel Travis	Viacom Class A Common			
	Viacom Class B Common			
	Blockbuster Class A Common	80		*
	Blockbuster Class B Common	748	103,750	*
Larry J. Zine	Viacom Class A Common	1,710	385,815	1.0%
	Viacom Class B Common		77,500	
	Blockbuster Class A Common	2,017(2)		*
	Blockbuster Class B Common	1,078(2)		1.1%
American Century Investment Management, Inc.(9)	Blockbuster Class A Common	6,648,973(10)		17.9%
American Century Companies, Inc.(9)				
American Century Mutual Funds, Inc.(9)				
Goldman Sachs Asset Management, L.P.(11)	Blockbuster Class A Common	3,476,043(12)		9.4%
Husic Capital Management(13)	Blockbuster Class A Common	1,857,600(14)		5.0%
Frank J. Husic & Co.(13)				

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Frank J. Husic(13)

LSV Asset Management(15)	Blockbuster Class A Common	3,874,564(16)		10.5%
Mellon Financial Corporation(17)	Blockbuster Class A Common	2,567,162(18)		6.9%

Mellon Trust of New England,

National Association(17)

Viacom Inc.(19)	Blockbuster Class A Common	3,576,145(8)	144,000,000(8)	81.5%
	Blockbuster Class B Common	144,000,000(8)		100.0%

Viacom International Inc.(19)

NAIRI, Inc. (20)

National Amusements, Inc.(20)

Current directors and current executive officers as a group other than Mr. Redstone (14 persons) (21)	Viacom Class A Common	2,305(22)		*
	Viacom Class B Common	27,103(23)	2,482,224	*
	Blockbuster Class A Common	62,192(2)	3,084,477	7.8%
	Blockbuster Class B Common			

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- \* Represents less than 1% of the outstanding common stock of the class.
- (1) Amounts indicated reflect shares subject to stock options that, on March 31, 2004, were unexercised but were exercisable within a period of 60 days from that date; except that amounts of Blockbuster Class A Common Stock indicated in this column as beneficially owned by Sumner M. Redstone and Viacom Inc. reflect shares subject to the conversion rights described in footnote (8) below. These shares are excluded from the column headed "Number of Outstanding Shares."
  - (2) This includes shares held through Blockbuster's 401(k) plan.
  - (3) This includes shares held through Viacom Inc.'s 401(k) plan.
  - (4) This includes 2,000 shares that are held by a family member of Mr. Dauman.
  - (5) This includes 4,000 shares that are held by a family member of Mr. Dauman.
  - (6) The address for Mr. Redstone is c/o Viacom Inc., 1515 Broadway, New York, New York 10036.
  - (7) Except for 80 shares of Viacom Inc. Class A Common Stock and 10,343 shares of Viacom Inc. Class B Common Stock owned directly by Mr. Redstone (including 263 shares through Viacom Inc.'s 401(k) plan), all shares are beneficially owned through National Amusements, Inc. Mr. Redstone is the Chairman and Chief Executive Officer of, and the beneficial owner of the controlling interest in, National Amusements, Inc.
  - (8) This is based in part on a Schedule 14A filed by Viacom Inc. with the Securities and Exchange Commission on April 15, 2004. Viacom Inc. beneficially owns 3,576,145 shares of the Company's Class A Common Stock, of which shares 1,621,100 are held directly by Viacom International Inc., a wholly-owned subsidiary of Viacom Inc. Approximately 71% of Viacom Inc.'s voting stock is owned by NAIRI, Inc., which is a wholly-owned subsidiary of National Amusements, Inc. Beneficial ownership is attributed to Mr. Redstone due to his beneficial ownership and control of National Amusements, Inc., as disclosed in footnote (7) above, and NAIRI, Inc. Pursuant to the Company's Amended and Restated Certificate of Incorporation, each share of the Company's Class B Common Stock is convertible at the option of the holder thereof into one share of the Company's Class A Common Stock. As a result, Viacom Inc., Viacom International Inc., NAIRI, Inc., National Amusements, Inc. and Mr. Redstone are deemed to beneficially own 144,000,000 shares of the Company's Class A Common Stock through Viacom International Inc.'s ownership of 144,000,000 shares of the Company's Class B Common Stock.
  - (9) The address for American Century Investment Management, Inc., American Century Companies, Inc. and American Century Mutual Funds, Inc. is 4500 Main Street, 9<sup>th</sup> Floor, Kansas City, Missouri 64111.
  - (10) This is based in part on an amendment to Schedule 13G filed with the Securities and Exchange Commission on February 20, 2004, which was jointly filed by American Century Investment Management, Inc., American Century Companies, Inc. and American Century Mutual Funds, Inc. According to the Schedule 13G, American Century Companies, Inc. beneficially owns all of the reported shares through its wholly-owned subsidiary American Century Investment Management, Inc., as a result of American Century Investment Management, Inc.'s acting as investment adviser to various persons, such as investment companies and separate institutional investor accounts, including American Century Mutual Funds, Inc., which owns 4,740,735 of such shares.
  - (11) The address for Goldman Sachs Asset Management, L.P. is 32 Old Slip, New York, New York 10005.
  - (12) This is based in part on a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2004 by Goldman Sachs Asset Management, L.P. According to the Schedule 13G, Goldman Sachs Asset Management, L.P. beneficially owns all of the shares reported but disclaims beneficial ownership of any securities managed by third parties on Goldman Sachs Asset Management, L.P.'s behalf.
  - (13) The address for Husic Capital Management, Frank J. Husic & Co. and Frank J. Husic is 555 California Street, Suite 2900, San Francisco, California 94104.
  - (14) This is based in part on an amendment to Schedule 13G filed with the Securities and Exchange Commission on March 16, 2001, which was jointly filed by Husic Capital Management, Frank J. Husic & Co. and Frank J. Husic. According to the Schedule 13G, the shares are indirectly held by Frank J. Husic & Co. as the sole general partner of Husic Capital Management and by Frank J. Husic as the sole stockholder of Frank J. Husic & Co.
  - (15) The address for LSV Asset Management is 1 North Wacker Drive, Suite 4000, Chicago, Illinois 60606.

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- (16) This is based in part on a Schedule 13G filed with the Securities and Exchange Commission on January 8, 2004 by LSV Asset Management. According to the Schedule 13G, LSV Asset Management has sole voting power with respect to 2,780,964 of such shares and sole investment power with respect to 3,767,064 of such shares.
- (17) The address for Mellon Financial Corporation and Mellon Trust of New England, National Association is One Mellon Center, Pittsburgh, Pennsylvania 15258.
- (18) This is based in part on an amendment to Schedule 13G filed with the Securities and Exchange Commission on February 5, 2004, which was filed by Mellon Bank, N.A. on behalf of its parent holding company, Mellon Financial Corporation and Mellon Financial Corporation's subsidiary, Mellon Trust of New England, National Association. According to the Schedule 13G, (i) all of the shares reported are beneficially owned by Mellon Financial Corporation and its direct or indirect subsidiaries in their various fiduciary capacities, including Mellon Trust of New England, National Association, which beneficially owns 2,115,618 of such shares; (ii) Mellon Financial Corporation has sole voting power with respect to 1,437,637 of such shares, sole investment power with respect to 2,558,364 of such shares and shared voting and investment power with respect to 3,000 of such shares; and (iii) Mellon Trust of New England, National Association has sole voting power with respect to 1,050,518 of such shares and sole investment power with respect to 2,109,820 of such shares.
- (19) The address for Viacom Inc. and Viacom International Inc. is 1515 Broadway, New York, New York 10036.
- (20) The address for NAIRI, Inc. and National Amusements, Inc. is 200 Elm Street, Dedham, Massachusetts 02026.
- (21) Including Mr. Redstone in the totals for the Company's current directors and current executive officers as a group, the number of outstanding shares and the number of shares underlying options or conversion rights of (i) Viacom Inc. Class A Common Stock is 93,661,213 and 0, respectively, or 70.9% of the class; (ii) Viacom Inc. Class B Common Stock is 104,372,274 and 13,044,724, respectively, or 7.3% of the class; (iii) Blockbuster Class A Common Stock is 3,638,337 and 147,084,477, respectively, or 81.9% of the class and (iv) Blockbuster Class B Common Stock is 144,000,000 and 0, respectively, or 100% of the class.
- (22) This includes information disclosed in footnotes (3) and (4) above.
- (23) This includes information disclosed in footnotes (2), (3) and (5) above.



**Table of Contents****EXECUTIVE COMPENSATION****Executive Officers of the Company**

The following information regarding the Company's executive officers is as of July 1, 2004.

<u>Name</u>	<u>Age</u>	<u>Position</u>
John F. Antioco	54	Chairman of the Board of Directors and Chief Executive Officer
Frank G. Paci	46	Executive Vice President, Finance, Strategic Planning and Development
Michael K. Roemer	55	Executive Vice President and Chief Operations Officer, North America Operations
Nicholas P. Shepherd	45	Executive Vice President, Chief Marketing and Merchandising Officer
Edward B. Stead	57	Executive Vice President, General Counsel and Executive Vice President Business Development
Nigel Travis	54	President and Chief Operating Officer
Christopher J. Wyatt	47	Executive Vice President and President, International
Larry J. Zine	49	Executive Vice President, Chief Financial Officer and Chief Administrative Officer

Set forth below is a description of the background of each of the executive officers of the Company.

**John F. Antioco** has served as the Company's Chairman of the Board of Directors and Chief Executive Officer since 1997 and served as its President from 1997 until 2001. From 1996 until 1997, Mr. Antioco served as President and Chief Executive Officer for Taco Bell Corporation. Mr. Antioco serves as Chairman of the Board of Directors of Main Street & Main Incorporated. Mr. Antioco is also a member of the board of governors of the Boys & Girls Clubs of America.

**Frank G. Paci** has served as the Company's Executive Vice President, Finance, Strategic Planning and Development since 2003 and served as its Senior Vice President, Strategic Planning and Finance Operations from 2001 to 2003. Mr. Paci also served as the Company's Senior Vice President, Strategy and Planning from 2000 to 2001 and Senior Vice President International Finance and Worldwide Mergers and Acquisitions from April 2000 until October 2000. Mr. Paci served as Senior Vice President of International Finance and Administration from 1999 to 2000. From 1995 until 1998, Mr. Paci served as a Vice President for Yum Brands, formerly known as Tricon and Pepsico, where Mr. Paci was Vice President, Strategic Planning from 1997 to 1998 and Vice President, Nontraditional Business for Pizza Hut from 1995 to 1997.

**Michael K. Roemer** has served as the Company's Executive Vice President and Chief Operations Officer, North America Operations, since 2001 and served as its Executive Vice President and Chief Operations Officer, USA Store Operations, from 1999 until 2001. Mr. Roemer also served as the Company's Executive Vice President, Domestic Video Operations, from 1998 until 1999. From 1997 until 1998, Mr. Roemer served as the Company's Senior Vice President, Domestic Video Operations. From 1995 until 1997, Mr. Roemer served as an independent consultant for such major companies as Frito Lay, where he assisted with new product development, distribution and business process planning. Mr. Roemer serves on the Board of Governors for the Children's Miracle Network.

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**Nicholas P. Shepherd** has served as the Company's Executive Vice President, Chief Marketing and Merchandising Officer since 2004 and served as its Executive Vice President, Merchandising and Chief Concept Officer from 2001 until 2004. Mr. Shepherd also served as the Company's Senior Vice President and Chief Concept Officer from April 2001 until September 2001. From 1998 until 2001, Mr. Shepherd, a British national, served as the Company's Senior Vice President, Asia and Australia, and from 1995 until 1998, he served as Vice President and Managing Director of the Company's U.K. business.

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**Edward B. Stead** has served as the Company's Executive Vice President and General Counsel since 1997 and as its Executive Vice President Business Development, since 2001. Mr. Stead served as the Company's Secretary from 1999 until 2002. From 1988 until 1996, Mr. Stead served in various capacities with Apple Computer, Inc., including Senior Vice President, General Counsel and Secretary.

**Nigel Travis** has served as the Company's President and Chief Operating Officer since 2001 and served as its Executive Vice President and President, Worldwide Stores Division, from 1999 until 2001. Mr. Travis served as the Company's Executive Vice President and President, Worldwide Retail Operations, from 1998 until 1999 and as its President, International Operations, from 1997 until 1998. From 1994 until 1997, Mr. Travis served in various other capacities for the Company, including Senior Vice President, Europe. Mr. Travis, a British national, serves as the Lead Director of The Bombay Company, Inc. and is also a director of the Video Software Dealers Association.

**Christopher J. Wyatt** has served as the Company's Executive Vice President and President, International, since 2001 and served as its President, International, from March 2001 until October 2001. Mr. Wyatt, a British national, served as the Company's Senior Vice President, International, from 1999 until 2001, and as its Senior Vice President, International Finance, from 1998 until 1999. Mr. Wyatt also served as the Company's Finance Director, Europe, from 1996 until 1998.

**Larry J. Zine** has served as the Company's Executive Vice President and Chief Financial Officer since 1999 and as its Chief Administrative Officer since September 2001. From 1996 until 1999, Mr. Zine served as Chief Financial Officer for Petro Stopping Centers, L.P., where he was responsible for all operations. During 1999, Mr. Zine also served as President of Petro. Mr. Zine currently serves as a director of Petro and is also a member of the Board of Trustees for the National Urban League.

**Table of Contents****Summary Compensation Table**

The following table sets forth certain information concerning the compensation of the named executive officers for each of the Company's last three fiscal years.

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards	All Other Compensation (\$)
		Salary(\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Securities Underlying Options(#)(3)	
John F. Antioco Chairman of the Board and Chief Executive Officer	2003	1,750,000	5,305,125	99,394(4)	200,000	16,462(5)
	2002	1,600,000		13,562(6)	600,000	21,750(5)
	2001	1,455,000	2,500,000	69,178(7)	544,828 600,000(9)	2,550(8)
Nicholas P. Shepherd	2003	445,200	502,780		45,000 20,000(9)	70,612(10)
Executive Vice President, Chief Marketing and Merchandising Officer	2002	400,577		2,581(6)	45,000	65,418(10)
	2001	357,212	164,706	90(6)	40,000	49,600(10)
Edward B. Stead Executive Vice President and General Counsel	2003	498,500	560,040	9,482(6)	150,000 25,000(9)	12,463(5)
	2002	484,039		1,412(6)	125,000	12,101(5)
	2001	449,615	245,725	1,235(6)	25,000(9) 125,000 25,000(9)	11,240(5)
Nigel Travis President and Chief Operating Officer	2003	697,500	827,056	4,988(11)	175,000 30,000(9)	111,019(12)
	2002	671,154		794(13)	175,000	100,507(12)
	2001	569,231	332,156	(14)	25,000(9) 150,000 25,000(9)	65,324(12)
Larry J. Zine Executive Vice President, Chief Financial Officer and Chief Administrative Officer	2003	568,000	673,946	11,450(6)	150,000 25,000(9)	14,200(5)
	2002	547,885		185,358(15)	150,000	20,819(5)
	2001	489,288	284,856	204,801(16)	25,000(9) 125,000 25,000(9)	19,701(5)

(1) This reflects bonuses earned during fiscal 2003, 2002 and 2001, respectively. Bonuses were paid during the next fiscal year.

(2)

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In accordance with the rules of the Securities and Exchange Commission, other annual compensation does not include perquisites for an individual if the aggregate amount of such perquisites for that individual was less than \$50,000.

- (3) Except where noted otherwise, this reflects options to acquire shares of Blockbuster Class A Common Stock.
- (4) This includes (i) \$26,793 for personal use of the Company's plane; (ii) \$21,581 for an incentive-based trip; (iii) other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation; and (iv) \$31,970 of reimbursement for taxes.
- (5) This consists of employer matching contributions to the Company's 401(k) and excess 401(k) plans.
- (6) This consists of reimbursement for taxes.
- (7) This includes (i) \$51,781 for personal use of the Company's plane; (ii) other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation; and (iii) \$1,215 of reimbursement for taxes.

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- (8) This consists of employer matching contributions to the Company's 401(k) plan.
- (9) This reflects options to acquire shares of Viacom Inc. Class B Common Stock.
- (10) This consists of employer contributions to Blockbuster's U.K. defined contribution plan. The amounts disclosed for 2003, 2002 and 2001 reflect a conversion from British pounds to U.S. dollars at average conversion rates of 1.63330, 1.50195 and 1.440368, respectively.
- (11) This consists of reimbursement for taxes. This number does not reflect an estimated \$180,694 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2003 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2003 of 1.63330 U.S. dollars to 1.00 British pound. The accrued amount includes amounts accrued as of the end of 2002 and 2001, as disclosed in footnotes (13) and (14).
- (12) This consists of employer contributions to Blockbuster's U.K. defined contribution and supplemental defined contribution plans. The amount disclosed for 2003 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2003 of 1.63330. The amount disclosed for 2002 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2002 of 1.50195 and includes approximately \$4,000 that had accrued but had not been paid, during prior years. The amount disclosed for 2001 reflects a conversion from British pounds to U.S. dollars at an average conversion rate for 2001 of 1.440368 and does not include approximately \$4,000 that had accrued, but had not been paid, during prior years.
- (13) This consists of reimbursement for taxes. This number does not reflect an estimated \$139,369 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2002 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2002 of 1.50195 U.S. dollars to 1.00 British pound. The accrued amount includes the amounts accrued as of the end of 2001, as disclosed in footnote (14).
- (14) This does not reflect an estimated \$112,901 in reimbursement for taxes that had accrued, but had not been paid, as of December 31, 2001 for Mr. Travis' benefit in connection with employer contributions under Blockbuster's U.K. supplemental defined contribution plan, based on an average conversion rate for 2001 of 1.440368 U.S. dollars to 1.00 British pound.
- (15) This includes (i) \$98,685 of forgiveness of principal and interest on a loan by the Company to Mr. Zine relating to income taxes payable in connection with his sign-on bonus, which loan was fully forgiven in April 2002; and (ii) \$72,196 of reimbursements for taxes, including reimbursements made in connection with the forgiveness of principal and interest on such loan. This also includes other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation.
- (16) This includes (i) \$103,670 of forgiveness of principal and interest on a loan by the Company to Mr. Zine relating to income taxes payable in connection with his sign-on bonus, which loan was fully forgiven in April 2002; and (ii) \$87,194 of reimbursements for taxes, including reimbursements made in connection with the forgiveness of principal and interest on such loan. This also includes other executive perquisites, none of which exceeds 25% of the total perquisites reported as other annual compensation.

**Table of Contents****Option Grants During 2003 Fiscal Year**

The following table provides information related to options granted to the named executive officers during fiscal 2003.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Shares of Common Stock Underlying	% of Total Options Granted to Employees in Fiscal 2003	Exercise or Base Price	Expiration	5%(\$)	10%(\$)
	Options Granted (#)(1)		(\$/Sh)	Date		
John F. Antioco	200,000(2)	4.85	15.84	July 22, 2013	1,992,338	5,048,976
Nicholas P. Shepherd	45,000(2)	1.09	15.84	July 22, 2013	448,276	1,136,020
	20,000(3)	0.08(4)	39.33	January 29, 2013	494,689	1,253,638
Edward B. Stead	150,000(2)	3.64	15.84	July 22, 2013	1,494,254	3,786,732
	25,000(3)	0.11(4)	39.33	January 29, 2013	618,361	1,567,047
Nigel Travis	175,000(2)	4.24	15.84	July 22, 2013	1,743,296	4,417,854
	30,000(3)	0.13(4)	39.33	January 29, 2013	742,033	1,880,457
Larry J. Zine	150,000(2)	3.64	15.84	July 22, 2013	1,494,254	3,786,732
	25,000(3)	0.11(4)	39.33	January 29, 2013	618,361	1,567,047

(1) Except where noted otherwise, this reflects options to acquire shares of Blockbuster Class A Common Stock.

(2) The options become exercisable with respect to one-third of the shares covered thereby on each of July 22, 2005, 2006 and 2007.

(3) This reflects options to acquire shares of Viacom Inc. Class B Common Stock. The options become exercisable with respect to 25% of the shares covered thereby on each of January 29, 2004, 2005, 2006 and 2007.

(4) This reflects the percentage of total options granted to all Viacom Inc. and Blockbuster employees. The percentage of total options granted to all Blockbuster employees was 21.43% for Mr. Travis, 17.86% for each of Messrs. Stead and Zine and 14.28% for Mr. Shepherd.

**Table of Contents****Aggregated Option Exercises During 2003 Fiscal Year and Fiscal Year-End Option Values**

The following table provides information related to options exercised by the named executive officers during the 2003 fiscal year and the number and value of options held at fiscal year end. The Company does not have any outstanding stock appreciation rights.

Name	Shares Acquired on Exercise  (#)	Value Realized\$(1)	Number of Securities Underlying		Value of In-the-Money Options as of	
			Unexercised Options as of December 31, 2003		December 31, 2003\$(2)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John F. Antioco	(3)		1,351,330(5)	1,335,445(5)	4,073,542(5)	2,133,225(5)
	171,200(4)	4,512,556	588,320(6)	450,000(6)	10,119,112(6)	1,071,000(6)
Nicholas P. Shepherd	(3)		133,000(5)	142,000(5)	404,350(5)	230,350(5)
	9,000(4)	249,820	4,000(6)	20,000(6)	55,270(6)	101,000(6)
Edward B. Stead	(3)		242,100(5)	427,300(5)	764,195(5)	715,785(5)
	(4)		18,750(6)	56,250(6)	30,500(6)	217,750(6)
Nigel Travis	(3)		385,815(5)	534,517(5)	1,173,154(5)	858,575(5)
	15,500(4)	385,780	83,750(6)	61,250(6)	1,775,513(6)	243,000(6)
Larry J. Zine	(3)		409,832(5)	471,834(5)	1,259,004(5)	773,410(5)
	(4)		48,750(6)	66,250(6)	81,275(6)	234,675(6)

- (1) Calculated based on the difference between the fair market value of the securities underlying the options and the exercise price of the options at the exercise date.
- (2) Calculated based on the difference between the fair market value of the securities underlying the options and the exercise price of the options at December 31, 2003.
- (3) Represents shares of Blockbuster Class A Common Stock acquired on exercise.
- (4) Represents shares of Viacom Inc. Class B Common Stock acquired on exercise.
- (5) Represents securities underlying options to purchase Blockbuster Class A Common Stock.
- (6) Represents securities underlying options to purchase Viacom Inc. Class B Common Stock.

**Compensation of Directors****Retainer Fee**

Directors who do not serve as officers or employees of Viacom Inc. or Blockbuster receive an annual retainer fee of \$50,000 for membership on Blockbuster's Board of Directors. Of this amount, \$25,000 is paid in shares of the Company's Class A Common Stock that is non-transferable for one year after it is paid. The other \$25,000 is paid in cash. In addition, the Chair of the Audit Committee receives an annual retainer fee of \$7,500, and the Chair of the Senior Executive Compensation Committee receives an annual retainer fee of \$5,000. Jackie M. Clegg joined the Board of Directors on July 22, 2003 and was paid a retainer fee of \$25,000 for membership on Blockbuster's Board of Directors from such date through December 31, 2003. Ms. Clegg's retainer fee was paid half in cash and half in shares of the Company's Class A Common Stock that was non-transferable for one year after it was paid.



*Attendance Fees*

From January 1, 2003 through March 24, 2003, directors were paid an attendance fee of \$1,000 for each Board meeting attended and \$1,000 for each committee meeting attended if such meeting was held on a different day from the day of a Board meeting and the committee member had to travel to participate in the committee meeting. On March 25, 2003, the Board of Directors increased attendance fees to \$2,000 for participation in a Board meeting and \$1,000 for participation in a committee meeting for meetings held on a different day from the day of a Board meeting. Directors were also reimbursed for their expenses incurred in connection with their service on the Board of Directors or any committee of the Board of Directors.

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### ***Special Committee Fees***

Directors who serve on the non-standing Special Committee of the Board, described in more detail above under *Corporate Governance Committees of the Board Special Committee*, receive a cash retainer fee as well as an attendance fee of \$2,000 per meeting if attended in person and \$1,000 per meeting for participation by telephone. The cash retainer fee was initially set by the Board of Directors at \$30,000, with the Chairperson receiving an additional \$10,000 for serving in that capacity. In April 2004, the cash retainer fee was increased by the Board of Directors to \$70,000 for members and to \$80,000 for the Chairperson.

### **Defined Benefit Pension Plans**

Through December 31, 1999, the Company participated in a non-contributory qualified defined benefit pension plan and, for some of the Company's highly compensated employees, a non-qualified excess defined benefit pension plan. Both plans are sponsored by Viacom Inc. The Company's 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 plans are determined by a formula that uses final average compensation (salary and bonus) and years of benefit service. The benefits under Viacom Inc.'s excess pension plan are not subject to the provisions of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), that limit the compensation used to determine benefits and the amount of annual benefits payable under Viacom Inc.'s qualified pension plan.

The Company's employees ceased to participate in Viacom Inc.'s pension plans at December 31, 1999. Viacom Inc. initially retained the accrued liability for benefits under both of these plans for the Company's employees. However, in connection with the divestiture, the Company has agreed to assume up to \$800,000 of the accrued liabilities for the Company's employees for benefits under the excess defined benefit pension plan, as discussed below under *Certain Relationships and Related Transactions Relationships Between the Company and Viacom Inc. Initial Public Offering and Split-Off Agreement*. All of the Company's employees who were actively employed by the Company and participating in the qualified defined benefit pension plan or the excess defined benefit pension plan on December 31, 1999 were fully vested in their accrued benefits in these plans on that date. The factors used to determine benefits payable under these plans, compensation and years of service, were also frozen on that date, with Mr. Antiochos and Mr. Steadman (i) compensation frozen at \$160,000 each for the qualified defined benefit pension plan and \$590,000 and \$415,682, respectively, for the excess defined benefit pension plan and (ii) years of service frozen at 1.5 and 1.25, respectively.

The aggregate accrued annual retirement benefit payable un