BLOCKBUSTER INC
Form 11-K
June 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 001-15153

A. **Full title of the plan and the address of the plan, if different from that of the issuer named below:**

BLOCKBUSTER INVESTMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

BLOCKBUSTER INC.

1201 Elm Street

Dallas, Texas 75270

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BLOCKBUSTER INVESTMENT PLAN

INDEX TO FINANCIAL STATEMENTS AND EXHIBITS

* Other schedules required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not applicable or not required.

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of the

Blockbuster Investment Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Blockbuster Investment Plan (the Plan) at December 31, 2009 and 2008, and the changes in net assets available for benefits for the year ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedule of Assets (Held at End of Year) at December 31, 2009 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
Dallas, Texas
June 29, 2010

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BLOCKBUSTER INVESTMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	At December 31	
	2009	**2008**
Investments at fair value (Note 3)	$ 84,116,600	$ 71,395,673
Cash (non-interest bearing)	631	3,838
Receivables:		
Investment income	6,998	7,694
Contributions:		
Employee	171,588	240
Employer	2,766	184,135
	84,298,583	71,591,580
Liabilities:		
Excess contributions refundable to participants	(950,833)	
Net assets available for benefits at fair value	83,347,750	71,591,580
Adjustment from fair value to contract value for fully benefit-responsive investment contracts (Note 2)	(593,720)	926,567
Net assets available for benefits	$ 82,754,030	$ 72,518,147

The accompanying notes are an integral

part of these financial statements.

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BLOCKBUSTER INVESTMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	Year Ended December 31, 2009
Investment income:	
Interest and dividends	$ 1,795,175
Net appreciation in fair value of investments (Note 3)	12,146,321
Net investment income	13,941,496
Contributions:	
Employee	5,885,973
Employer	1,808,673
Rollovers	143,067
Total contributions	7,837,713
Deductions:	
Benefits paid to participants	(11,357,689)
Participant administrative expenses	(185,637)
Total deductions	(11,543,326)
Net increase	10,235,883
Net assets available for benefits, beginning of period	72,518,147
Net assets available for benefits, end of period	$ 82,754,030

The accompanying notes are an integral

part of these financial statements.

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BLOCKBUSTER INVESTMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 PLAN DESCRIPTION

The following is a brief description of the Blockbuster Investment Plan (the Plan) and is provided for general information only. Participants should refer to the Plan document for more complete information regarding the Plan.

General

The Plan is a defined contribution employee benefit plan, which was adopted on February 8, 1999 and became effective on May 1, 1999, covering employees of Blockbuster Inc. (the Company or Blockbuster), and its participating subsidiaries. The Plan is offered on a voluntary basis to all eligible full-time and part-time employees and is subject to the provisions of the Internal Revenue Code of 1986, as amended (the Code), and the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is administered by a committee (the Retirement/Investments Committee), the members of which were appointed by the Board of Directors of the Company. The Retirement/Investments Committee has discretionary control over the management and disposition of the Plan s assets as set forth in the Plan document. The Retirement/Investments Committee is a named fiduciary of the Plan.

The Plan was amended on April 1, 2009 to suspend the employer matching contributions to the Plan for payroll periods on or after June 1, 2009. Matching contributions for payroll periods before that date were not affected. The Company shall have no obligation to make employer matching contributions to the Plan and for Plan years beginning on or after June 1, 2009. The Plan has ceased to be a safe harbor 401(k) plan and is therefore no longer exempt from the actual deferral and contribution percentage discrimination testing requirements of Code Sections 401(k) and (m) for the 2009 Plan year. Although the Company anticipates that the Plan will continue indefinitely, it reserves the right to amend the Plan at any time through action of the Board of Directors, or the Retirement/Investments Committee in the case of certain administrative amendments, and to terminate the Plan at any time through action of the Board of Directors, provided that such action is in accordance with applicable law.

Eligibility

Full-time employees are generally eligible to participate in the Plan on the first day of the month in which they have both (i) reached age 21 and (ii) completed one year of eligibility service. Eligibility service is generally based on the number of days for which a full-time employee is given service credit. Part-time employees are generally eligible to participate in the Plan on the first day of the month following the month in which they have both (i) reached age 21 and (ii) completed one year of eligibility service, with eligibility service generally being defined as a consecutive twelve month period in which a part-time employee works at least 1,000 hours.

Effective for the 2009 Plan year, the eligibility requirement was amended on June 17, 2008 by adding a new Appendix B to the Plan. Appendix B allows employees who have reached age 21 and have not completed the minimum service eligibility conditions to have salary reduction contributions made to their accounts in the Plan. The salary reduction contribution election is effective as of the first day of the month after the completion of ninety (90) days of employment. The contributions will not be eligible for company matching until completion of eligibility service.

Investment and Participant Accounts

Mercer HR Services, L.L.C. provides the recordkeeping and administrative services for the Plan. Additionally, Mercer Trust Company (the Trustee) is the trustee and custodian of Plan assets. The Trustee uses various parties, including Putnam Investments, for various administrative functions required by the Plan. Investment options for Plan participants are subject to change in accordance with the terms of the Plan.

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For Plan year 2009, plan participants have the option of investing their contributions or existing account balances among the following:

Common Stock
Blockbuster Class A Common Stock
Blockbuster Class B Common Stock

Blend
Davis New York Venture Fund
Putnam S&P 500 Index Fund
Oppenheimer Main Street Small Cap Fund
Vanguard Total Stock Market Index Fund

Income
PIMCO Total Return Fund

Capital Preservation
Putnam Stable Value Fund

Growth
American Funds Growth Fund of America

International
American Funds EuroPacific Growth Fund

Value
Allianz NFJ Dividend Value Fund

Asset Allocation (Ready-Mixed)
Principal LifeTime 2010 Fund
Principal LifeTime 2020 Fund
Principal LifeTime 2030 Fund
Principal LifeTime 2040 Fund
Principal LifeTime 2050 Fund
Principal LifeTime Strategic Income Fund

For Plan year 2009, participant funds that are invested in the Principal LifeTime Funds are invested in the options indicated below, based on the age of the participant:

Participant turns 65:	New Participant Investment Option:
Before October 4, 2007	Principal LifeTime Strategic Income Fund
Between October 4, 2007 and December 31, 2014	Principal LifeTime 2010 Fund
Between January 1, 2015 and December 31, 2024	Principal LifeTime 2020 Fund
Between January 1, 2025 and December 31, 2034	Principal LifeTime 2030 Fund
Between January 1, 2035 and December 31, 2044	Principal LifeTime 2040 Fund
After December 31, 2044	Principal LifeTime 2050 Fund

Investment elections must be made in multiples of 1%. Common Stock Funds consist only of the applicable common stock. The Plan is intended to meet the requirements of ERISA Section 404(c). Thus, because the Plan permits participants to exercise control over assets in their Plan accounts in accordance with the requirements of ERISA Section 404(c), no person who is otherwise a fiduciary will be liable for any loss, or by reason of any breach, which results from such exercise of control.

Employer matching contributions have been invested according to each participant s investment elections.

Contributions

The Plan permits participants to contribute up to 75% of annual Compensation (as defined in the Plan document) on a before-tax basis subject to Code limitations. For payroll periods prior to June 1, 2009, the Plan provided the employer s matching contribution equal to (i) 100% of the first 3% of annual compensation contributed and 50% of the next 2% of annual compensation contributed if the participant was not a highly compensated employee (HCE), as determined under the Code rules; or (ii) 50% of the first 5% of annual compensation contributed if the participant was an HCE. For the 2009 Plan year, any employee whose prior year s Compensation exceeded $105,000 was considered an HCE for Plan purposes. Pursuant to Code limits, total compensation considered under the Plan for purposes of determining contribution limits could not exceed $245,000 for 2009. As discussed above under *General*, the Plan was amended on April 1, 2009, effective for payroll periods on or after June 1, 2009, to suspend the employer matching contributions to the Plan.

An employee is permitted to rollover into the Plan at any time part or all of the employee s eligible distributions from other tax-qualified savings plans, including profit-sharing plans, pension plans and certain individual retirement arrangements (rollovers).

The Code limits the amount of annual participant contributions that can be made on a before-tax basis. The Code also contains a per participant annual limit on aggregate participant and employer contributions to defined contribution plans maintained by the Company and certain related entities.

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All participants who have attained age 50 before the close of the calendar year are allowed to make catch-up contributions. These contributions can be made if the eligible participants make the maximum contribution permitted under the Plan for a Plan year. Catch-up contributions cannot exceed 75% of the participant s Compensation.

Excess Contributions Refundable to Participants

During the year ended December 31, 2009, the Plan failed certain of its nondiscrimination tests. As a result, refunds of excess contributions were paid out to participants in order for the Plan to meet compliance testing requirements. A liability was reserved for these excess contributions amounting to $950,833 as of December 31, 2009. Refunds were paid to participants on March 12, 2010. The Plan was a safe harbor plan during 2008. Accordingly no discrimination testing was applicable or performed.

Loans to Participants

Participants are eligible to receive loans based on their vested account balances. The maximum loan available to a participant is the lesser of 50% of the participant s vested account balance or $50,000 (determined by aggregating loans from all qualified defined contribution plans of the Company or any affiliated company), reduced by the highest aggregate outstanding balance of all Plan loans from all defined contribution plans of the Company or any affiliated company made to the participant during the twelve-month period ending on the day before the loan is made. The minimum loan available to a participant is $500. Loans are collateralized by the participant s remaining vested account balance. The interest rate on participant loans is established on the first day of the calendar quarter of the loan origination at a rate of 1% above the annual prime commercial rate, and a participant can only have one loan outstanding at any time. The loans outstanding at December 31, 2009 carry interest rates ranging from 4.25% to 10.5% and mature at various dates through September 2033. Participants may elect repayment periods from twelve to sixty months through payroll deductions commencing as soon as administratively possible following the distribution of the loan. The Plan allows participants to elect a repayment term of up to 300 months for loans used for the acquisition of a principal residence. Transfers of participant balances for loan disbursements and repayments of loan principal and interest are specifically identified in the respective participants accounts and allocated in accordance with their current investment elections. A loan origination fee of $75 is assessed by Mercer HR Services, L.L.C. to borrowing participants of the Plan upon funding of the loan. Loans that are considered in default according to Plan provisions are reported as a deemed distribution, which is a taxable event for the participant.

Participant Accounts

Each participant s account is credited with the participant s contribution, the Company s matching contribution (prior to June 1, 2009) and allocation of Plan earnings. Earnings are allocated to participants accounts based upon participant account balances. Expenses are charged for the administration of certain investment options. These expenses are allocated to participants accounts and thus are included as a component of the changes in net assets available for benefits.

Vesting

Participants in the Plan are immediately vested in their contributions and earnings thereon. In addition, all employer matching contributions are 100% vested at the time of contribution.

Payment of Benefits upon Termination of Employment or Disability

Subject to certain Code limitations, participants in the Plan, or their beneficiaries, may receive their account balances, in a lump sum or in installments over a period of up to 20 years, in the event of retirement, termination of employment, disability or death. Participants must receive a required minimum distribution upon attainment of age 70 $^1/2$ unless they are still employed. All distributions are paid in cash except that a participant may elect to have the portion of his or her account that is invested in a Common Stock Fund distributed in shares of the applicable common stock.

Withdrawals During Employment

Participants in the Plan who are still actively employed may elect to withdraw part or all of their after-tax and rollover contributions and earnings thereon.

Participants who are not age 59 $^1/2$ may also elect to withdraw up to 100% of their vested employer matching contributions contributed prior to January 1, 2001, and earnings thereon. Additionally, participants who are not age 59 $^1/2$ may obtain hardship withdrawals of (i) any of their vested employer matching contributions that were contributed to the Plan before January 1, 2001 and (ii) any of their contributions to the Plan.

Upon attainment of age 59 $^{1}/_{2}$, participants may also elect to withdraw all or part of their contributions and matching contributions, and earnings thereon.

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With the exception of hardship withdrawals, participants are limited to one withdrawal in any calendar year. There is no restriction on the number of hardship withdrawals permitted.

Termination Priorities

In the event that the Plan is terminated, subject to conditions set forth in ERISA, the Plan provides that the net assets of the Plan will be distributed to participants in proportion to their respective vested interests in such net assets at that date.

Plan Expenses

Plan loan origination fees, distribution charges and investment advisory fees are allocated to participants accounts and thus are included in Participant administrative expenses in the Plan s Statement of Changes in Net Assets Available for Benefits. Account maintenance fees and Common Stock Fund fees are paid from Plan assets. The Company pays for all other expenses incurred in connection with the administration of the Plan, to the extent not covered by forfeitures. For the 2009 Plan year the Company incurred a total of $106,220 in administrative expenses, of which $50,907 was paid with funds from forfeited non-vested accounts, and $53,500 of audit expenses on behalf of the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accrual method of accounting is used for financial statement presentation.

Investment Valuation and Income Recognition

The Plan s investments are carried at fair value. The Plan defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities which are required to be recorded at fair value, the Plan considers the principal or most advantageous market in which the Plan would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions and credit risk.

The Plan applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels, and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Valuations based on quoted prices for identical securities in active markets.

Level 2 Valuations based on observable inputs other than quoted prices for similar securities in active markets and quoted prices for identical or similar securities in markets that are not active.

Level 3 Valuations based on inputs that are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009 and 2008.

The Blockbuster Class A and B Common Stock Funds are reported at fair value based on the quoted market price of the stock on the New York Stock Exchange on the last business day of the year. Investments with registered investment companies and the Putnam S&P 500 Index Fund are reported at fair value based upon the market value of the underlying securities as priced by national security exchanges. Participant loans are valued at the outstanding balance at December 31, 2009 and 2008, which approximates fair value. Interest income is accrued as earned and dividend income is recorded on the ex-dividend date.

The Putnam Stable Value Fund invests primarily in investment contracts, including guaranteed and security-backed investment contracts. Investment contracts held by a defined-contribution plan are required to be reported at fair value. However, the contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As a result, the Statements of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of

Changes in Net Assets Available for Benefits is prepared on a contract value basis for the fully benefit-responsive investment contracts. Fair value of the investment contracts is determined by the fund manager or the fair value of the fund s investments in externally managed stable value commingled investment funds provided to the fund by external managers of these funds. Contract value consists of the book value, or cost plus accrued interest, of the underlying investment contracts.

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The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents information about the Plan s financial assets that are measured at fair value on a recurring basis as of December 31, 2009 and 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements at Reporting Date			
	Level 1	Level 2	Level 3	December 31, 2009
Registered investment companies	$ 55,943,523	$	$	$ 55,943,523
Collective investment trusts		23,863,912		23,863,912
Common stock	1,142,908			1,142,908
Loans to participants			3,166,257	3,166,257
Total assets at fair value	$ 57,086,431	$ 23,863,912	$ 3,166,257	$ 84,116,600

	Fair Value Measurements at Reporting Date			
	Level 1	Level 2	Level 3	December 31, 2008
Registered investment companies	$ 44,434,961	$	$	$ 44,434,961
Collective investment trusts		21,411,485		21,411,485
Common stock	2,102,439			2,102,439
Loans to participants			3,446,788	3,446,788
Total assets at fair value	$ 46,537,400	$ 21,411,485	$ 3,446,788	$ 71,395,673

The table below sets forth a summary of changes in the fair value of the Plan s level 3 assets for the year ended December 31, 2009.

	Level 3 Investments Year Ended December 31, 2009 Participant loans
Balance, beginning of year	$ 3,446,788
Issuances and settlements, net	(280,531)
Balance, end of year	$ 3,166,257

Security Transactions

Purchases and sales of securities are recorded on the trade date.

The Plan presents in the Statement of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Contributions

Employee and employer contributions are accrued in the period that payroll deductions are made from Plan participants in accordance with salary deferral agreements and, as such, become obligations of the Company and assets of the Plan.

Payment of Benefits

Benefits are recorded when paid.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan to make estimates and assumptions, such as those regarding fair value, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan provides for various investment options. Investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of such securities, it is at least reasonably possible that changes in risks in the near term could continue to materially affect participants account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the related Statement of Changes in Net Assets Available for Benefits.

NOTE 3 INVESTMENTS

Individual investments that represent greater than 5% of net assets available for benefits are identified below:

	At December 31,			
	2009		2008	
	Units/ Principal Amount/ Shares	Fair Value of Assets	Units/ Principal Amount/ Shares	Fair Value of Assets
Allianz NFJ Dividend Value Fund	716,019	$ 7,496,720	733,558	$ 7,093,506
American Funds EuroPacific Growth Fund	251,442	9,474,337	255,112	7,030,882
American Funds Growth Fund of America	387,855	10,444,928	409,537	8,272,640
PIMCO Total Return Fund	562,099	6,070,671	547,556	5,552,222
Davis New York Venture Fund	224,000	6,939,516	240,226	5,674,142
Putnam S&P 500 Index Fund	306,342	9,542,569	326,035	8,023,725
Putnam Stable Value Fund	13,727,623	14,321,343	14,314,327	13,387,760

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The Plan s investments (including investments bought, sold and held during the year) appreciated (depreciated), as follows:

	Year Ended December 31, 2009
Registered Investment Companies:	
Allianz NFJ Dividend Value Fund	$ 547,827
American Funds EuroPacific Growth Fund	2,522,056
American Funds Growth Fund of America	2,627,268
Davis New York Venture Fund	1,632,398
Oppenheimer Main Street Small Cap Growth Fund	642,017
PIMCO Total Return Fund	379,855
Principal Lifetime 2010 Fund	105,823
Principal Lifetime 2020 Fund	365,068
Principal Lifetime 2030 Fund	661,118
Principal Lifetime 2040 Fund	664,357
Principal Lifetime 2050 Fund	177,980
Principal Lifetime Strategic Income Fund	47,633
Vanguard Total Stock Market Index Fund - Signal Shares	564,795
	10,938,195
Collective Investment Trusts:	
Putnam S&P 500 Index Fund	2,056,291
	2,056,291
Common Stock Funds:	
Blockbuster Class A Common Stock	(854,112)
Blockbuster Class B Common Stock	5,947
	(848,165)
Net appreciation	$ 12,146,321

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NOTE 4 RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	At December 31, 2009	2008
Net assets available for benefits per the financial statements	$ 82,754,030	$ 72,518,147
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	593,720	(926,567)
Amounts allocated to withdrawing participants	(5,145)	(97,604)
Net assets available for benefits per the Form 5500	$ 83,342,605	$ 71,493,976