

Blockbuster could only pay preferred stock dividends out of either net profits or a surplus of net assets over the aggregate par value of the outstanding shares of capital stock. As of April 2010, Blockbuster had no net profits and its capital surplus was negative.

So far, the results of these initiatives had done little to brighten Blockbuster's increasingly dismal outlook; however, management believed

that the forthcoming Movie Gallery store closings would favorably affect rental revenues at hundreds of Blockbuster locations during the remainder of 2010. In the first quarter of 2010, Blockbuster's total revenues were 13.5 percent below the levels of a year earlier, and the company posted a quarterly net loss of \$67.1 million (as compared to a net profit of \$24.9 million in the first quarter of 2009)—see Exhibit 5. Blockbuster management attributed the revenue decline

Exhibit 5 Blockbuster's Consolidated Statement of Operations, First Quarter 2010 versus First Quarter 2009 and Fiscal Years 2007–2009 (\$ millions, except per share amounts)

	Thirteen Weeks Ended		Fiscal Year Ended		
	April 4, 2010	April 5, 2009	January 3, 2010	January 3, 2009	January 3, 2008
Revenues					
Base rental revenues	\$598.7	\$704.9	\$2,528.0	\$3,166.5	\$3,353.7
Previously rented product ("PRP") revenues	120.9	138.3	557.9	619.8	649.9
Merchandise sales	215.1	236.7	956.1	1,246.9	1,251.2
Other revenues	4.7	6.0	20.4	32.2	59.2
Total revenues	939.4	1,085.9	4,062.4	5,065.4	5,314.0
Cost of sales					
Cost of rental revenues	270.1	309.9	1,130.6	1,446.7	1,584.0
Cost of merchandise sold	167.1	202.7	753.6	988.4	956.3
Total cost of sales	437.2	512.6	1,884.2	2,435.1	2,540.3
Gross profit	502.2	573.3	2,178.2	2,630.3	2,773.7
Operating expenses					
General and administrative	484.4	477.9	1,928.7	2,235.3	2,454.9
Advertising	21.0	11.5	91.4	117.7	190.5
Depreciation and intangible amortization	26.2	33.7	144.1	146.6	180.3
Impairment of goodwill and other long-lived assets	—	—	369.2	435.0	2.2
Gain on sale of Gamestation	—	—	—	—	(81.5)
Total operating expenses	531.6	523.1	2,533.4	2,934.6	2,746.4
Operating income (loss)	(29.4)	50.2	(355.2)	(304.3)	27.3
Interest expense	(33.2)	(17.5)	(111.6)	(72.9)	(88.2)
Loss on extinguishment of debt	—	—	(29.9)	—	—
Interest income	—	0.2	1.3	2.4	6.4
Other items, net	(1.6)	(0.8)	(10.4)	16.3	(1.3)
Income (loss) from continuing operations before income taxes	(64.2)	32.1	(505.8)	(358.5)	(55.8)
Provision for income taxes	(1.1)	(5.5)	(11.8)	(24.4)	(28.4)

(Continued)