

# RESEARCH RECAP

## PulseCheck Update: Blockbuster on Life Support

***Does anybody not invested in Blockbuster in some way believe the company will survive as an independent chain of standalone video stores? The company's options continue to narrow after its announcement that it may need to seek bankruptcy protection, as we reported earlier this week.***

**Standard & Poor's** today cut its rating on Blockbuster to 'CC' from 'CCC'. "The negative outlook reflects our view that the company is highly vulnerable to default and that performance will be severely challenged in the near term."

Fitch led the charge yesterday, downgrading Blockbuster's Long-term Issuer Default Rating (IDR) to 'C' from 'CCC'

Fitch remains concerned about the company's operating model and pressures on its business due to the changing industry dynamics and intense competition from various channels. "Given the deteriorating operating performance, Fitch expects credit metrics will continue to weaken in 2010." However, Fitch believes Blockbuster maintains adequate liquidity to make its April 1, 2010 debt payment of \$43 million.

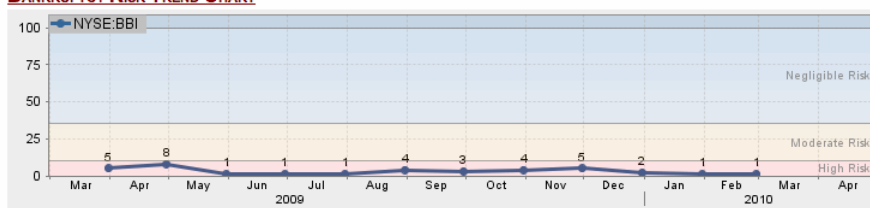
**Gimme Credit analyst Kim Noland** doubts that Blockbuster will be able to cut its underperforming stores fast enough to withstand a falling sales pattern. ([Forbes](#)) "The inroads into its business by competitors bode very ill for its long term health," says Noland. "We have been critical of the in-store business model for a long time," she adds.

A voluntary bankruptcy, while painful, may be its only way out, **Needham analyst Charles Wolf** says. ([TheStreet](#))

**Wedbush Morgan analyst Michael Pachter** said it was important to note that Blockbuster's possible move toward bankruptcy was voluntary. ([Reuters](#))

**Audit Integrity** has had Blockbuster on its radar for a couple of years. "Since March of 2008, the AGR Bankruptcy Risk Model has rated Blockbuster in the 8th percentile or lower, with a rating in the lowest 1% for the past two months."

**BANKRUPTCY RISK TREND CHART**



Blockbuster Inc. (BBI) Chief Executive Jim Keyes on Thursday reiterated to [Dow Jones Newswires](#) that the movie-rental giant's problems are not insurmountable.

Keyes said Blockbuster is making "very good progress" as it talks with debtholders about possible restructuring moves, as it negotiates with movie studios, and as it continues to pursue the possible sale of international assets.

"There's nothing wrong with this core business that can't be fixed," Keyes said.

We're not persuaded.