

Rating Action: Moody's lowers Blockbuster's PDR rating to Ca/LD

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New York, July 02, 2010 -- Moody's Investors Service today lowered Blockbuster Inc.'s Probability of Default Rating to Ca/LD from Caa3 and Corporate Family Rating to Ca from Caa3. The rating outlook is stable.

The downgrade is prompted by Blockbuster failing to pay its scheduled interest and amortization payments due under its senior secured notes. Blockbuster has signed a forbearance agreement with about 70% of the note holders where the note holders agreed not to exercise certain rights and remedies they have in the indenture as a result of these missed payments. The forbearance agreement expires on August 13, 2010. However, since the missed amortization payment is an immediate default with no grace period under the indenture, Moody's views this as a limited default. This is a limited as it is only under the senior secured notes as the missed interest and amortization payments do not trigger a cross default under the subordinated notes as they fall within the basket contained in the subordinated notes indenture which allows for up to \$50 million of missed debt payments.

In addition, the downgrade to Ca reflects Moody's belief that another default or limited default is highly likely as the forbearance agreement does not fix Blockbuster's capital structure issues, it merely provides the company with additional time to negotiate a restructuring with its debt holders.

The following ratings are lowered:

Corporate Family Rating to Ca from Caa3;

Probability of Default Rating to Ca/LD from Caa3;

Senior secured notes to Caa1 (LGD 2, 19%) from B3 (LGD 2, 19%);

Senior subordinated notes to C (LGD 5, 79%) from Ca (LGD 5, 79%);

Speculative grade liquidity rating to SGL-4 from SGL-3.

The Speculative Grade Liquidity Rating of SGL-4 represents weak liquidity. Moody's views Blockbuster's liquidity as being weak given its continued decline in excess cash balances. Since Blockbuster doesn't have any external liquidity, it is heavily reliant on its excess cash balances to fund itself. Moody's notes that Blockbuster currently has the ability to make the missed interest and amortization payment -- but we believe chose not to as a negotiation tactic.

The principal methodology used in rating this issuer was Moody's Global Retail Industry rating methodology published in December 2006 and available on www.moody's.com in the Rating Methodologies sub-directory under Research and Rating tab. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies subdirectory on Moody's website.

The last rating action on Blockbuster was on March 2, 2010 when its Corporate Family Rating was downgraded to Caa3 from Caa1.

Blockbuster Inc. is a leading global provider of in-home movie and game entertainment through several channels including; its store base, website, digital download, and vending kiosks. Blockbuster's approximately 6,500 stores are located throughout the United States, its territories, and 19 other countries. Annual revenues are about \$4.1 billion.

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