

# **Institutional Distressed Debt Research**

**Performance Plus Advisors, Inc.**

**Distressed Debt Research**

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## **Blockbuster, Inc.**

### **Block Flustered**

Under the original disclosed plan, Carl Icahn and some hedge funds would have received a controlling stake in the company for the forgiveness of nearly \$1 billion in debt. Poor holiday sales led the company to request more cash. Bondholders seemed to lose their enthusiasm and Blockbuster has put itself up for as Section 363 sale.

### **Section 363 Sale**

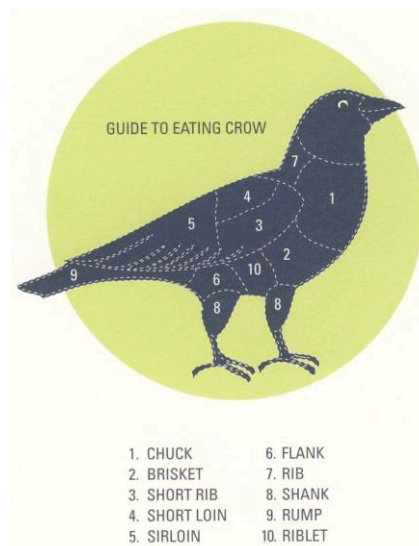
A basic Section 363 sale starts with an initial bidder known as a stalking horse who reaches an agreement to purchase assets from the Chapter 11 debtor. The buyer and the DIP negotiate an asset purchase agreement which rewards the stalking horse for investing the effort and expense to sign a transaction that will be exposed to higher and better bids. The protection afforded to a stalking horse generally include a combination of a break up fee between 1% and 5% of the sale price, expense reimbursement up to a negotiated cap, minimum increments for overbids, qualification requirements for competing bidders, strict deadlines for competing bids and dates for the run off auction, final court approval and closing.

**See Important Disclosures**

## Sell Recommendation-Senior Secured Notes

### “Eating Crow”

We have changed our rating on the 11.75% Senior Secured Notes of Blockbuster to **Sell** currently trading at approximately 40. Our last recommendation on these Senior Notes was a **Buy** on 11/26/2010 at 50. We will “eat crow” on this one with a 20% loss. Our recommendation is based on a lowered expected recovery for the Senior Notes due to the announced Section 363 sale.



## **Discloser – Certification**

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**Neutral:** We generally expect “**Neutral**” rated investment returns to deviate plus or minus + or – 20% from the date of the original recommendation.

**Sell:** We generally expect “**Sell**” rated investments returns to be equal to or greater than minus -20% from the date of the original recommendation.

**Analyst Rating Distribution as of 2/11/2011**

	Number of Companies	Percent of Total
Buy	2	40%
Neutral	2	40%
Sell	1	20%
Total	5	100%