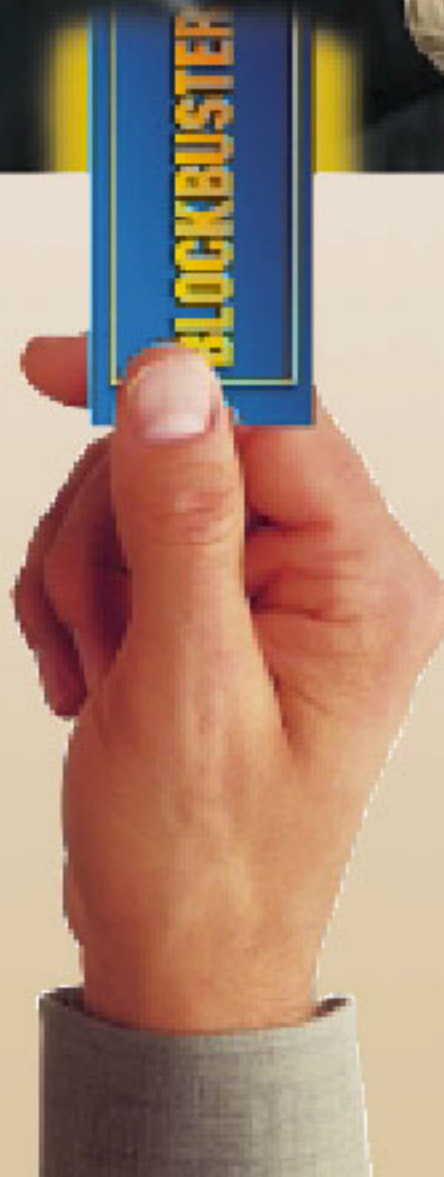


The **Ticket** to Home  
Entertainment



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# Our Vision



Our vision is to grow our core rental business while continuing to use our brand, our massive database, our stores and our studio relationships to deliver an even



broader array of home entertainment to both existing and new audiences. By adopting this approach, Blockbuster intends to transform itself from a retail-only powerhouse into a leading



provider of home entertainment. In other words, however consumers want to receive their home entertainment - whether we are renting them a tape at one of our stores ...



taking their orders over the Internet ... or beaming a digital file into their home - we plan to be there. Blockbuster, The Ticket to Home Entertainment.



# To Our Stockholders



## **Blockbuster - The Ticket to Home Entertainment.**

The year 2000 is significant for us since it marks the 15th anniversary of Blockbuster's entry into the video rental business.

In a very short time, Blockbuster has become a brand that speaks on a regular basis to millions of households. A brand that has become an institution and a way of life around the world. A brand so closely associated with rentable home entertainment, it is virtually synonymous. As for the future, our vision is simple. Over the next several years, Blockbuster plans to transform itself from the world's leading retailer of rentable videos, DVDs and video games into a leading provider of multiple forms of home entertainment and services. No matter the format, no matter the distribution medium, Blockbuster intends to be "The Ticket to Home Entertainment."

### **The In-Home Entertainment Industry - a Compelling Business Opportunity**

Broadening our view from a focus on store-based movie-and-game rentals to a vision that encompasses the whole world of home entertainment will create an increasingly compelling business opportunity.

According to industry analyst Paul Kagan & Associates, at-home movie consumption expenditures will increase approximately 40% by 2005 to \$27 billion, almost triple the amount spent in 1990. The vast majority of these expenditures, about 83%, will be for video/DVD rentals and retail.

However, home movie consumption will also encompass pay-per-view and

video on demand (VOD) available through cable and satellite services. In recognition of the opportunity this presents, we are actively exploring the extension of our brand to these alternative technologies as they become viable. With our brand, our database, our store base, studio relationships and marketing capabilities, Blockbuster, in my opinion, is perfectly positioned to take advantage of the opportunities presented by the growing home entertainment industry.

### **Blockbuster's Growth Plan**

Our strategy to seize this advantage is straightforward and simple.

First, we intend to increase our retail store base efficiencies - both by

managing costs and maximizing our core movie and game rental business. We will also capitalize on our store presence to demonstrate and sell Internet and entertainment services, generating incremental revenues and customer traffic.

Second, we will establish alternative ways to deliver entertainment to people at home by leveraging our own formidable assets and collaborating with the right strategic partners.

Additionally, we will actively market our database capabilities and our media assets to other brand companies who can benefit from using our assets to build their businesses as we add to our revenue streams.

## Core Rental Business is Robust

While we firmly believe that the technology explosion will unlock the true value of Blockbuster, there is still tremendous growth potential in our core rental business.

First, with 86 million VCR households in the U.S. and nearly half of those having more than one unit, the VCR enjoys huge consumer acceptance and continued growth. Also contributing to the rental industry's favorable outlook is the advent of DVD, predicted to be in more than 40 million households within seven years. And, with our global rollout of this digital format last year, we believe Blockbuster is advantageously positioned as the world's leading provider of rentable DVD.

Second, studio economics favor the video format over other ways of

distributing movies. The Hollywood studios continue to reap about 50% of their domestic revenues from video.

Third, video rental is affordable. If a family wants an evening of entertainment, renting a video is one of the least expensive and most gratifying ways they can spend their time, and this is a dynamic we shouldn't underestimate. Nearly a third of U.S. households don't even subscribe to basic cable with one of the reasons being it's simply too expensive.

And, finally, Blockbuster's share of the video rental business continues to grow against a backdrop of industry consolidation. In the past two years, there has been a 14% reduction in the total number of video stores operating in the U.S. while Blockbuster grew its domestic store base by around 19% in the same time period.

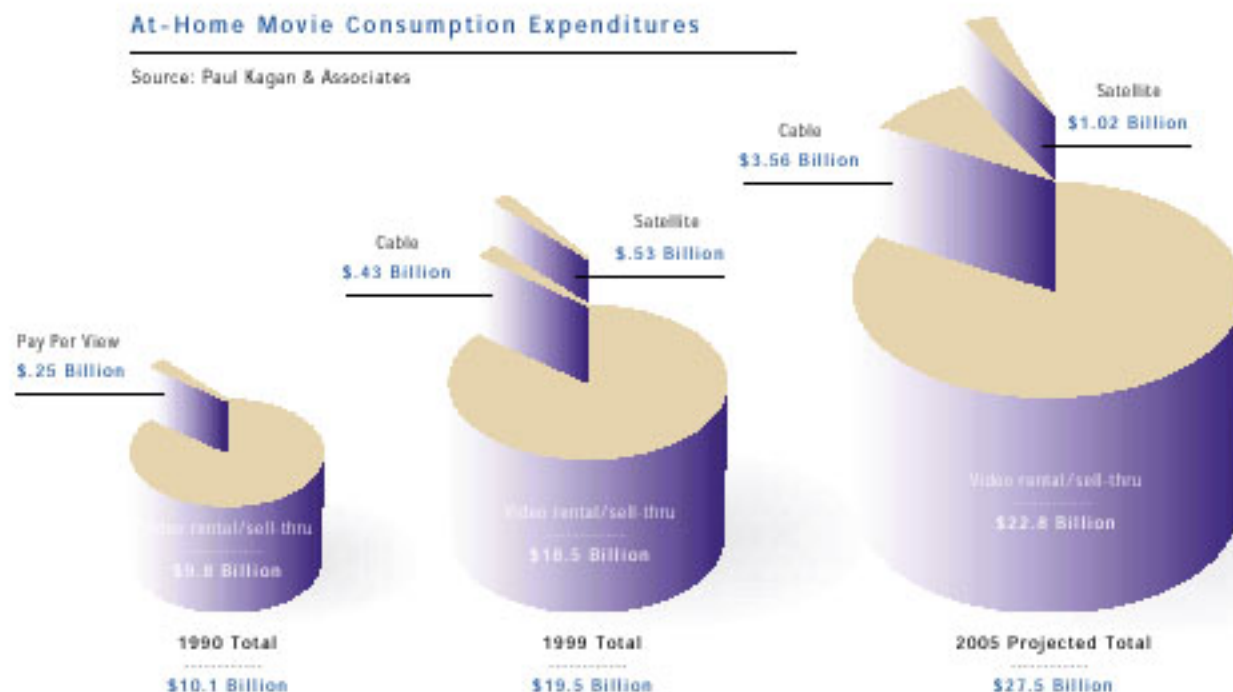
## 1999 - a Year of Achievement for Blockbuster

All of this has accrued to the benefit of our financials with 1999 being a year of significant achievement for the Company:

- For the year ended December 31, 1999, Blockbuster reported record worldwide revenue of \$4.46 billion, 15% higher than 1998 revenue of \$3.89 billion.
- Excluding a one-time charge taken in 1998, earnings before interest, taxes, depreciation and amortization (EBITDA) increased 15% over 1998 to \$514 million.
- Same-store revenues for 1998 and 1999 increased by a combined 22%.
- Based on industry data, our market share of the domestic video rental

## At-Home Movie Consumption Expenditures

Source: Paul Kagan & Associates



While we firmly believe that the technology explosion will unlock the true value of Blockbuster, there is still tremendous growth potential in our core rental business.



- business grew between three to five percentage points in 1999.
- We had a net increase of 772 corporate and franchise stores worldwide.
- In 1999 our customer loyalty ratings reached record highs.

#### **Our Retail Base - a Valuable Asset in a Virtual World**

In addition to maximizing the returns from our stores, we'll be leveraging them to generate new sources of revenue and customers - as highlighted by our recent announcement with America Online, Inc. (AOL), under which we will promote AOL products and services through our domestic retail base and receive revenues from the AOL memberships we generate.

This is the first of what we hope will be several announcements, teaming Blockbuster with Internet and entertainment-service providers who see the value in using our high-quality neighborhood retail environments to demonstrate and sell their services. In return, our plan is that Blockbuster will receive both immediate and ongoing revenues while strategically aligning us with companies that can help actualize our long-term goal to deliver home entertainment via a variety of digital distribution channels.

#### **Our Database - the Source of Potential Additional Revenues**

Our retail stores are not the only asset we are leveraging to generate incremental revenues. With a transactional database that holds 65 million 12-month active member accounts, we believe we have one of the richest entertainment retail databases in the world.

Mindful at all times that respect for our members' privacy is fundamental to our relationship with them, we have begun utilizing our database capabilities as the basis for marketing alliances with companies in the entertainment, airline, video game and soft drink industries. Our plan in 2000 is to more fully pursue these opportunities, as evidenced by the multimillion-dollar, two-year database marketing agreement we recently signed with MCI WorldCom.

#### **New Technology Initiatives**

We are also moving forward to realize the opportunities presented by e-commerce and new direct-to-home technologies.

In November 1999, we overhauled and relaunched our Web site, [blockbuster.com](http://blockbuster.com), to make it a more efficient e-commerce outlet. It's important to note that e-commerce was not the final objective behind the relaunch, but a strategic first step in our mission to position [blockbuster.com](http://blockbuster.com)

as an entertainment destination site - a site that, over time, will enhance our global business as opposed to simply generating revenues.

In 2000, we intend to integrate our online capabilities with our store systems, allowing consumers to search a store's inventory to reserve a title and prepay - all through [blockbuster.com](http://blockbuster.com).

Video streaming is also coming to [blockbuster.com](http://blockbuster.com). AtomFilms, a leading source of high-quality short-form entertainment, intends to furnish us with both content and streaming-related technologies. Later this year, we plan to be able to show film clips and other short-form entertainment on the site.

Additionally, as underscored by a host of recent announcements, we are actively aligning ourselves with content providers and alternative delivery networks to position ourselves for the future of home entertainment, whatever course it follows.

To this end, late last year - as part of an announcement under which we became a premier video provider on AOL's Entertainment Channel and AOL will become an equity investor in [blockbuster.com](http://blockbuster.com) - our companies agreed to explore the possibility of developing a model for broadband content deployment.



We've also announced intentions to work with TiVo, Inc. to jointly develop a business model for virtual video on-demand. Using the TiVo set-top box, we envision that movie lovers will be able to download movies from BLOCKBUSTER<sup>®</sup>, exercising VCR-like control over the viewing experience.

In the area of content, we recently announced that we will be testing and developing a business model with Metro-Goldwyn-Mayer (MGM) for video streaming its film library.

Additionally, we are exploring home delivery with a variety of potential partners, including same-day, overnight- and food-delivery services.

Our goal with all of these initiatives is to be technology agnostic, to form strategic alliances behind all potential home-entertainment distribution channels and to establish first-mover advantage in emerging home entertainment

options, so, regardless of the technology, wherever the consumer goes, Blockbuster will be there.

**The Future of In-Home Entertainment is Blockbuster's**

Our ultimate goal is simple: to deliver home entertainment to consumers however they want to receive it.

Whether we are renting them a tape or a DVD at one of our stores . . . taking their order over the Internet . . . or beaming a digital video file into their chosen home entertainment appliance, I believe the opportunity in home entertainment is Blockbuster's to seize.



John Antioco  
Chairman and  
Chief Executive Officer



**Since Blockbuster opened**

its first video store 15 years ago, we have grown from a single location in Dallas, Texas, into the number-one video chain in the world, currently employing some 92,000 people and operating more than 7,000 stores in 26 countries with 65 million 12-month active member accounts and an average of 3.1 million daily customers walking through our doors in the United States alone.

Statistics like this enable us to confidently lay claim to being the category giant in rentable home entertainment, even as we make plans to become a leading, branded provider of

multiple types of home entertainment and services.

Our success, in particular our dramatic resurgence over the past two years, is thanks in great part to the new business model we put into place in 1998, a business model predicated on satisfying the customer with a wider and deeper selection of video titles through revenue-sharing agreements with the major studios.

Customer response to these changes has been positive. In 1999 the future intent-to-rent among active

Blockbuster members was the highest ever in our recorded history, as was our number of 28-day active members and the number of our customers not sharing their business with a competitor. As for the number of customers leaving our stores unhappy or empty-handed, it fell to its lowest level since we began tracking that data.

In another move designed to satisfy our customers, we introduced DVD-formatted movies globally, both rental and retail. With more than 40 million DVD players projected



to be in households within seven years, DVD is the fastest growing packaged media playback device in history according to industry analysts, and we believe Blockbuster is now the leading rental provider of this new digital product.

Other product developments in 1999 included the addition of a Hispanic product module in selected stores throughout the country, the expansion of our "Sundance Recommends" section to 3,000 stores and an increasing array



of movies available exclusively at BLOCKBUSTER®. As a matter of fact, we have become one of the largest distributors of independent films in the country, providing a marketing differential for ourselves and giving our customers access to quality movies they might otherwise be unable to see.



In the game category, BLOCKBUSTER continues to be the nation's leading renter of video games, and last year, we expanded our offerings to include Game Boy, hardware and software rentals. We believe we are now the only

national chain to rent this hand-held gaming system.

From games to the hottest new releases, we continued to communicate with consumers through our marketing efforts, letting them know that Blockbuster is one of their best choices for rentable home entertainment. As the industry's only consistent national advertiser, we learned last year that when we got behind powerhouse movie titles and promoted their guaranteed availability, our share of the industry-wide rental of many of these titles was in excess of 60%. Our plan in 2000 is to



focus our media plan entirely on these key titles to deliver greater efficiencies and results.

Another marketing claim to fame for us is the BLOCKBUSTER ENTERTAINMENT AWARDS<sup>SM</sup>, one of the world's largest publicly voted awards shows, honoring achievements in film and music. Now in its sixth year, the BEA aired in over 60 countries and was viewed by more than six million people in the United States alone last year.



Blockbuster's physical presence also grew last year as 692 company stores were built worldwide, with 505 of those new locations being built in the United States.

On the franchise side of the business, domestically we added 25 new franchise groups who have committed to building in excess of 125 stores in 2000. We have also attracted franchisees abroad, most notably in Australia, Taiwan and Spain. Meanwhile, we converted or "refranchised" several smaller corporate markets that are better run as franchise operations both in the U.S. and internationally, as in New Zealand.



Going forward, our plans are to continue focusing our corporate U.S. growth on the 70 largest metro areas while cultivating franchise relationships in smaller markets. As for international, we're staying focused on a few top countries.

With a record number of people coming through our stores last year and long-term leases on some very choice real estate, our 7,000-plus stores are becoming an increasingly valuable asset in a virtual economy and are a critical component in our strategy to transform



the company into a provider of multiple forms of home entertainment. As evidenced by our recently announced initiative to market America Online, Inc. (ADL) memberships through our stores - we are leveraging our retail locations to generate new revenues through Internet, entertainment and communications companies who want to utilize our stores as a way to reach prospective customers.



We are also leveraging our database capabilities, along with our media assets (the BLOCKBUSTER ENTERTAINMENT AWARDS<sup>SM</sup>, blockbuster.com, our in-store monitor network, *Previews*

*Magazine*, direct mail program and BLOCKBUSTER GIFTCARDS<sup>SM</sup>) to help other companies develop customer relationship management programs that will enable them to better acquire and retain customers while providing additional revenues for Blockbuster.

Our worldwide database, comprised of 65 million 12-month active member accounts worldwide - with over 40 million of those accounts in the U.S. - is one of the largest retail databases in the country and was further enriched with the rollout of BLOCKBUSTER Rewards<sup>SM</sup> in February 1999.



Our loyalty/frequency program, BLOCKBUSTER Rewards, included five million member accounts as of year-end and to our knowledge, was one of the fastest-growing, largest fee-based loyalty programs in its first year.

We also experienced some impressive gains last year in the number of companies purchasing BLOCKBUSTER GIFTCARDS for employee or customer incentives. Recently named among the top five corporate premiums in the country by *Incentive* magazine, BLOCKBUSTER GIFTCARD<sup>SM</sup> business-to-business sales were up significantly over



last year and consumer sales through our stores were up for the fourth-consecutive year.

BLOCKBUSTER GIFTCARDS<sup>®</sup> were also available through [blockbuster.com](http://blockbuster.com), which was relaunched late in November as part of our plan to maximize our core rental business while simultaneously moving to realize the home entertainment opportunities presented by e-commerce and new direct-to-home technologies.

The fourth-quarter mission for [blockbuster.com](http://blockbuster.com), which we achieved on

schedule, was to establish the site's infrastructure and to begin attracting a loyal, brand-sensitive customer base. However, the real significance of [blockbuster.com](http://blockbuster.com) - the integration of the site with our in-store systems - should begin to become apparent later this year when customers will be able to search a specific store's inventory and reserve movies online. Fully 80% of the customers we've surveyed strongly indicated they want this service and a number of non-Blockbuster members would consider membership with us



when these services are available.

Other [blockbuster.com](http://blockbuster.com) news includes the launch of our co-branded site on AOL's Entertainment Channel in December and our announcement earlier this year that AtomFilms, a company that distributes high-quality short-form entertainment, intends to furnish us with both content and streaming-related technologies.

Outside the U.S. we launched an e-commerce site in the U.K., and we plan to explore technology opportunities abroad just as we are domestically.

As for our overall technology plan,

# REFERENCING



# BLOCKBUSTER

SONY



# MCI WORLD.COM

our goal is to deliver a satisfying in-home entertainment experience, regardless of format, regardless of distribution medium and, to that end, we have been actively aligning ourselves with content providers and delivery networks.

In early 2000 we announced our plans to work with TiVo, the creator of personal television, to develop and deploy a video on demand-like service that will enable TiVo subscribers to obtain a selection of movies from BLOCKBUSTER through their set-top box and exercise VCR-like control



over the viewing experience.

Additionally, as part of our alliance with AOL, we have said both companies would work together to explore developing a model for broadband content deployment.

Meanwhile, to provide content for potential electronic delivery, we entered into an agreement to make select films from the MGM library available for digital streaming and downloading via the Internet or other home delivery technologies.

We expect these to be the first of many such announcements as we



continue to engage in discussions with a wide spectrum of content and emerging technology providers through the year 2000 and beyond.

Our long-term plan with all of these initiatives is to continue to grow our core rental business while leveraging our brand, our massive transactional database, our unrivalled bricks and mortar infrastructure, and our studio relationships so that going forward, we will be able to deliver a broader array of home entertainment for both existing and new audiences.

Your **Ticket** to Home  
Entertainment





Blockbuster Inc.  
1201 Elm Street  
Dallas, Texas 75270-2102

## **Board Members**

John F. Antioco

Chairman of the Board of Directors, President and Chief Executive Officer

Philippe P. Dauman

Deputy Chairman, Executive Vice President and Director of Viacom Inc.

Thomas E. Dooley

Deputy Chairman, Executive Vice President and Director of Viacom Inc.

Linda Griego

President of Zappo Entertainment Group, L.L.C.

John L. Muething

Of Counsel to the Cincinnati, Ohio, law firm of Keating, Muething & Klekamp

Sumner M. Redstone

Chairman of the Board of Directors and Chief Executive Officer of Viacom Inc.

## **Stock Transfer Agent**

First Chicago Trust Company of New York, a division of EquiServe

P.O. Box 2500

Jersey City, NJ 07303

Questions & inquiries via First Chicago's Website: <http://www.equiserve.com>

## **Independent Auditors**

PricewaterhouseCoopers LLP

2001 Ross Avenue

Suite 1800

Dallas, TX 75201

## **Annual Meeting of Stockholders**

The Annual Meeting of Stockholders will be held on Tuesday, May 23, 2000

10:00 a.m. at Hotel Adolphus

1321 Commerce Street

Dallas, TX 75202

(214) 742-8200

## **Stock Listing**

Blockbuster Inc. trades on the New York Stock Exchange under the symbol BBI.

## **Annual Report on Form 10-K**

Investors who wish to receive a copy of the Company's Annual Report on Form 10-K may obtain a copy upon request by contacting:

Blockbuster Inc.

Investor Relations

1201 Elm Street

Dallas, TX 75270

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See our Website at: [blockbuster.com](http://blockbuster.com)

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