Blockbuster shares tumble after bankruptcy warning

March 17 2010, By TALI ARBEL , AP Business Writer

(AP) -- Shares of Blockbuster Inc. sank 30 percent Wednesday after the video rental chain warned that it may have to file for Chapter 11 bankruptcy protection.

Competition from DVD-by-mail company Netflix Inc. and DVD vending machines operated by Coinstar Inc. have eroded the Dallas company's revenue even as it staggers under a heavy debt load.

Blockbuster Inc. said in a regulatory filing late Tuesday that it was suffering "significant liquidity constraints," and could have to file for bankruptcy protection if it was unable to convince creditors to restructure a big chunk of its debt or its business continued to deteriorate.

The company has had to close about 1,300 stores and wants to shut down hundreds more. It had about 5,200 stores worldwide in January, excluding franchised shops. About 3,500 of those were in the U.S.

"The increasingly competitive industry conditions under which we operate has negatively impacted our results of operations and cash flows and may continue to in the future. These factors raise substantial doubt about our ability to continue as a going concern," Blockbuster said in a regulatory filing late Tuesday.

The company is trying to update its business, setting up video rental kiosks like those run by Coinstar and offering a DVD-mailing service. It added 2,000 kiosks in 2009 and expects to have more than 10,000 by the middle of this year - but NCR Corp., which operates the kiosks, is "under no obligation" to install or run them, Blockbuster said.

Blockbuster is also pursuing several measures to help shore up cash. It wants to sell some of its international business and it is pursuing a debt-for-equity swap to help alleviate its debt burden. It wants to swap all or part of its senior subordinated notes for common stock.

It said it owed $975 million under senior secured notes and senior subordinated notes as of Jan. 3.

Even if the swap goes through, it could significantly dilute current shareholders.

Meanwhile, the company predicts further declines in its sales. The chain said it expects a key sales measure to drop in the mid-single digits to high single digits in 2010 - and a "further deterioration" could leave it unable to service its debt, leading to default.

The Dallas company's key sales measure sank 16 percent in the fourth quarter - a dismal holiday season performance despite higher advertising. It lost $435 million compared to a loss of $360 million in the last three months of 2008.

Shares fell 12 cents, or 30 percent, to 28 cents in afternoon trading Wednesday. Earlier shares fell to 25 cents, their lowest point in more than a year. They have traded as high as $1.56 in the past 12 months.