

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

_____)	
In re:)	
)	Chapter 11
)	
)	Case No. 10-14997 (BRL)
BLOCKBUSTER INC., et al ¹)	
Debtors.)	Jointly Administered
_____)	

**FIRST QUARTERLY FEE STATEMENT OF ALVAREZ & MARSAL NORTH AMERICA,
LLC IN THEIR CAPACITY AS CHIEF RESTRUCTURING OFFICER, FOR
COMPENSATION AND REIMBURSEMENT
OF EXPENSES INCURRED FOR THE PERIOD
SEPTEMBER 23, 2010 THROUGH JANUARY 31, 2011**

For its First Quarterly Fee Statement for Compensation and Reimbursement of Expenses (the “Monthly Fee Statement”) Alvarez & Marsal North America, LLC (“A&M”), Chief Restructuring Officer to the Debtors and Debtors-in-Possession (the “Debtors”), respectfully represents as follows:

A. BACKGROUND

1. On September 23, 2010 (the “Commencement Date”), the Debtors filed a petition with the Court under chapter 11 of the Bankruptcy Code. The Debtors are operating their businesses and managing their property as debtors in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in these chapter 11 cases.
2. Pursuant to an order entered on October 10, 2010, the employment of A&M as Chief Restructuring Officer of the Debtors was authorized effective as of September 23, 2010.

¹ The Debtors, together with the last four digits of each Debtor’s federal tax identification number, are Blockbuster Inc. (5102); Blockbuster Canada Inc. (1269); Blockbuster Digital Technologies Inc. (9222); Blockbuster Distribution, Inc. (0610); Blockbuster Gift Card, Inc. (1855); Blockbuster Global Services Inc. (3019); Blockbuster International Spain Inc. (7615); Blockbuster Investments LLC (6313); Blockbuster Procurement LP (2546); Blockbuster Video Italy, Inc (5068); Movielink, LLC (5575); Trading Zone Inc. (8588); and B²LLC (5219).

3. A&M has rendered services on behalf of the Debtors from September 23, 2010 through January 31, 2011 (the "Statement Period") totaling 2,402.4 hours, and in the amount of \$1,488,105, and reimbursement of expenses in the amount of \$63,696. This is net of voluntary fee reductions of in the amount of \$219,363.

4. The Debtors have paid A&M \$1,492,945 for services rendered and expenses incurred from the commencement of this case through January 31, 2010. A&M also applied its retainer in the amount of \$58,856

B. DESCRIPTION OF SERVICES AND EXPENSES

5. To assist the Court in its review of the fees, A&M has separated its fees and time in Exhibit D into the following categories. In general, A&M assisted the Debtors in numerous bankruptcy related matters and represented the Debtors in meetings with creditors, advisors, studios and others. The tasks listed do not encompass all of the work performed by Jeff Stegenga and A&M personnel, but outline the major accomplishments for the period September 23, 2010 through January 31, 2011.

a. Accounting Cut-off – A&M incurred \$33,008 representing 65.3 hours related to this category. A&M prepared assisted the Debtors with accounting related items, including but not limited to, filing cut-off process, pre-petition and post-petition claims payment processes and reporting requirements, bank related items and other accounting related items.

b. Administrative – A&M incurred \$69,928 representing 129.5 hours related to this category. A&M addressed administrative matters related to the engagement, including, but not limited to, post filing calendars, work plans, reporting requirements timeline, review of court documents and general case management.

c. Bar Date Communication Planning – A&M incurred \$9,240 representing 17.9 hours related to this category. A&M assisted in the coordination of the bar notice process, including working with Debtors representatives, counsel, the Debtors claims agent and communication consultants to ensure that notice documents were accurate and proper. A&M also worked with the Debtors and claims agent to ensure proper notice population.

d. Business Plan – A&M incurred \$41,028 representing 72.5 hours related to this category. A&M provided a high level review support function to the Debtors in connection with their development of long-range business planning tools to monitor and quantify the financial impact of initiatives on the business.

e. Cash/Treasury Management – A&M incurred \$269,353 representing 545 hours related to this category. A&M prepared weekly cash flow forecasts, weekly variance reports, and budgets filed with the bankruptcy court as needed. A&M also assisted the Debtor with the implementation of these cash budgets across the organization.

f. Claims Management – A&M incurred \$46,603 representing 110.3 hours related to this category. A&M assisted the Debtors in establishing a claims reconciliation process. Included training Debtors personnel on claims reconciliation, including bankruptcy specific matters such as 503(b)(9) reconciliations. Also included generating claim reports to assist in prioritizing and documenting claims resolution recommendations.

g. Communication – A&M incurred \$1,583 representing 3.3 hours related to this category. A&M assisted the Debtors and Kekst & Company, the Debtors' communication consultants, with the communication process, communication documents and call center.

h. Court Hearings – A&M incurred \$863 representing 1.5 hours related to this category. A&M prepared for and attended the Debtors' hearings.

- i. DIP – A&M incurred \$7,065 representing 12.1 hours related to this category. A&M advised and assisted management with the financial and reporting aspects of the DIP financing.
- j. Due Diligence Monitoring and Support – A&M incurred \$143,353 representing 265.5 hours related to this category. A&M assisted the Debtors with addressing information requests from various constituents including senior lender and bondholder representatives regarding the Blockbuster Debtors.
- k. Executory Contract Review – A&M incurred \$65,939 representing 164.6 hours related to this category. A&M assisted the Debtors with the review of executory contracts. A&M also assisted the Debtors with the preparation of various contract analyses and the potential assumption or rejection of contracts.
- l. First Day Orders – A&M incurred \$6,470 representing 11.2 hours related to this category. A&M assisted the Debtors with monitoring and reporting to ensure compliance with the disbursement caps and limitations outlined in the first day motions.
- m. IT Contract Negotiation – A&M incurred \$17,025 representing 31 hours related to this category. A&M assisted the Debtors in contract and amendment negotiations with critical information technology suppliers.
- n. Motions/Order – A&M incurred \$8,530 representing 17.5 hours related to this category. A&M assisted the Debtors with preparation of case related motions and orders.
- o. POR/Disclosure Statement – A&M incurred \$10,180 representing 18.3 hours related to this category. A&M assisted the Debtors with the draft development of certain sections of a plan of reorganization and disclosure statement.

p. Preference Analysis – A&M incurred \$52,850 representing 122 hours related to this category. A&M professionals assisted the Debtors and its counsel in a preliminary assessment of the potential recovery of third party avoidance action claims. Analysis was limited to predictive, analytical work.

q. Real Estate and Utility Projects – A&M incurred \$20,423 representing 41.7 hours related to this category. A&M professionals assisted the Debtors with negotiating with landlords, communicating with utility providers, and analyzing real estate leases.

r. Retention – A&M incurred \$360 representing 0.6 hours related to this category. A&M prepared supplemental affidavits that were filed with the court, in compliance with retention requirements.

s. Statements & Schedules – A&M incurred \$205,243 representing 495.4 hours related to this category. A&M assisted the Debtors with preparation of statements and schedules. A&M coordinated all aspects related to Statements and Schedules preparation, including proper data collection, issue resolution, analysis of data submissions, management of an extensive cross organization executory contract search, compilation of an executory contract database, production of documents filed with the court, and preparation of mail files used by the claims agent for various notices. This category also includes time spent assisting the Debtors draft responses to creditor interrogatories relating to Statements and Schedules.

t. Supplier Management – A&M incurred \$75,034 representing 142.1 hours related to this category. A&M assisted the Debtors with accounts payable review and reconciliation, Studio payable monitoring, contract review, and vendor escalation issues.

u. Travel – A&M incurred \$52,045 representing 105.1 hours related to this category. The category includes non-working travel time reflected at ½ time incurred.

v. US Trustee Reporting and 341 Meeting – A&M incurred \$15,895 representing 29.9 hours related to this category. A&M assisted the Debtors with the preparation of court required reporting and attendance at 341 meeting.

A&M further submits its costs expended on behalf of the Debtors for the period September 23, 2010 through January 31, 2011 in connection with these Chapter 11 proceedings in the sum of \$63,696 as set forth in the summary attached as Exhibit C.

The expenses incurred by A&M may include wireless and long distance telephone calls, overnight delivery, travel expenses, and meals, all of which A&M normally bills to its non-bankruptcy clients at rates calculated to compensate A&M for only the actual cost of the expense. A&M does not charge for facsimiles.

Dated: April 14, 2011

Respectfully submitted,

Alvarez & Marsal North America, LLC

By: /s/ Jeffery J. Stegenga
Jeffery J. Stegenga
2100 Ross Avenue, Suite 2100
Dallas, Texas 75201
(214) 438-1000

Alvarez & Marsal North America, LLC
Summary of Compensation & Expenses - Blockbuster Inc., et al.,
September 23, 2010 through January 31, 2011

Period	Fees	Expenses	Total
Sept. 23, 2010 - Oct. 31, 2010	\$688,375	\$31,593	\$719,968
November 1-30, 2010	\$336,910	\$6,246	\$343,156
December 1-31, 2010	\$271,285	\$9,996	\$281,281
January 1-31, 2011	\$410,898	\$15,861	\$426,758
Subtotal	\$1,707,468	\$63,696	\$1,771,164
<i>Less: Voluntary Reduction</i>	-\$219,363	\$0	-\$219,363
Total	\$1,488,105	\$63,696	\$1,551,801

Alvarez & Marsal North America, LLC
Summary of Hours by Professional - Blockbuster Inc., et al.,
September 23, 2010 through January 31, 2011

Professional	Title	Hourly Rate	Hours Billed					Total
			Sept 23 - Oct 31	Nov 1-30	Dec 1-31	Jan 1-31	Total	Compensation
Jeff Stegenga*	CRO	fixed fee	0.0	0.0	0.0	0.0	0.0	\$555,455
Mike Askew	Managing Director	\$675	18.0	0.0	0.0	0.0	18.0	\$12,150
Julie Hertzberg	Managing Director	\$625	45.4	6.9	0.0	1.5	53.8	\$33,625
John Stuart	Senior Director	\$600	0.0	0.0	0.0	167.5	167.5	\$100,500
John Stuart	Senior Director	\$575	168.9	80.0	90.5	0.0	339.4	\$195,155
Tom Behnke	Senior Director	\$525	148.5	84.6	17.1	18.6	268.8	\$141,120
Justin Schmaltz	Director	\$525	0.0	0.0	0.0	199.1	199.1	\$104,528
Justin Schmaltz	Director	\$500	159.0	118.9	113.9	0.0	391.8	\$195,900
Holden Bixler	Director	\$425	26.6	3.1	6.2	1.8	37.7	\$16,023
Samuel Dimson	Manager	\$375	13.0	0.0	0.0	0.0	13.0	\$4,875
Ernst Pintar	Senior Associate	\$425	193.1	22.7	0.0	0.0	215.8	\$91,715
Peter Mosley	Senior Associate	\$400	0.0	0.0	0.0	121.5	121.5	\$48,600
Peter Mosley	Associate	\$350	0.0	13.0	45.5	0.0	58.5	\$20,475
Doug Lewandowski	Consultant	\$375	22.7	69.6	2.6	4.3	99.2	\$37,200
Matt Williams	Consultant	\$375	158.5	26.9	8.6	33.2	227.2	\$85,200
Jeff Sielinski	Consultant	\$350	176.1	0.9	0.0	0.0	177.0	\$61,933
Diego Torres	Consultant	\$275	0.0	2.6	0.0	0.0	2.6	\$715
Mary Napoliello	Paraprofessional	\$200	0.0	0.0	2.8	8.7	11.5	\$2,300
Total			1,129.8	429.2	287.2	556.2	2,402.4	\$1,707,468

*Jeff Stegenga
 Sept 23 - Oct 31 \$165,455
 Nov 1-30 \$130,000
 Dec 1-31 \$130,000
 Jan 1-31 \$130,000

Alvarez & Marsal North America, LLC
Summary of Hours by Professional - Blockbuster, Inc., et al.,
September 23, 2010 through January 31, 2011

Expense Category	Sept 23 - Oct 31	Nov 1-30	Dec 1-31	Jan 1-31	Total
Airfare	\$15,311	\$2,860	\$4,915	\$10,238	\$33,324
Lodging	\$8,636	\$1,549	\$2,654	\$3,091	\$15,929
Transportation	\$3,900	\$842	\$1,549	\$1,808	\$8,099
Meals	\$1,201	\$468	\$583	\$441	\$2,693
Miscellaneous	\$2,546	\$527	\$295	\$283	\$3,651
Total	\$31,593	\$6,246	\$9,996	\$15,861	\$63,696

Alvarez & Marsal North America, LLC
Summary of Fees by Task Category - Blockbuster Inc., et al.,
September 23, 2010 through January 31, 2011

Task Category	Sept 23 - Oct 31	Nov 1-30	Dec 1-31	Jan 1-31	Total
<u>CRO</u>					
	\$165,455	\$130,000	\$130,000	\$130,000	\$555,455
<i>Subtotal</i>	\$165,455	\$130,000	\$130,000	\$130,000	\$555,455
<u>Additional Personnel</u>					
Accounting/Cut-off	\$28,203	\$2,000	\$2,700	\$105	\$33,008
Administrative	\$16,943	\$14,963	\$14,083	\$23,940	\$69,928
Bar Date Communication Planning	\$0	\$9,240	\$0	\$0	\$9,240
Business Plan	\$8,625	\$12,075	\$11,098	\$9,230	\$41,028
Cash/Treasury Management	\$86,903	\$52,498	\$36,678	\$93,275	\$269,353
Claims Management	\$0	\$15,888	\$5,823	\$24,893	\$46,603
Communication	\$1,583	\$0	\$0	\$0	\$1,583
Court Hearings	\$863	\$0	\$0	\$0	\$863
DIP	\$4,485	\$0	\$0	\$2,580	\$7,065
Due Diligence Monitoring & Support	\$37,218	\$16,660	\$21,810	\$67,665	\$143,353
Executory Contract Review	\$5,261	\$9,365	\$15,225	\$36,088	\$65,939
First Day Orders	\$6,260	\$210	\$0	\$0	\$6,470
IT Contract Negotiation	\$17,025	\$0	\$0	\$0	\$17,025
Motions/Orders	\$7,885	\$0	\$345	\$300	\$8,530
POR/Disclosure Statement	\$1,580	\$0	\$7,820	\$780	\$10,180
Preference Analysis	\$11,468	\$41,068	\$315	\$0	\$52,850
Real Estate & Utility Projects	\$19,105	\$1,318	\$0	\$0	\$20,423
Retention	\$0	\$0	\$0	\$360	\$360
Statements & Schedules	\$192,455	\$8,108	\$4,530	\$150	\$205,243
Supplier Management	\$49,809	\$8,995	\$10,965	\$5,265	\$75,034
Non-Working Travel (1/2 of fees incurred)	\$19,378	\$8,750	\$7,650	\$16,268	\$52,045
UST Trustee Reporting & 341 Meeting	\$7,875	\$5,775	\$2,245	\$0	\$15,895
Total	\$522,920	\$206,910	\$141,285	\$280,898	\$1,152,013



2100 Ross Avenue, 21st Floor
Dallas, TX 75201
Phone: (212) 438-1000
Fax: (212) 438-1001
www.alvarezandmarsal.com

December 3, 2010

Mr. Dennis McGill
Chief Financial Officer
Blockbuster, Inc.
1201 Elm Street
Dallas, Texas 75201

Re: Invoice 84979-010

By Alvarez & Marsal North America, LLC
For the period September 23, 2010
Through October 31, 2010

<u>Professional</u>	<u>Title</u>	<u>Rate</u>	<u>Hours</u>	<u>Total</u>
Restructuring				
Jeff Stegenga	Chief Restructuring Officer			\$ 165,455
John Stuart	Senior Director	\$ 575	168.90	\$ 97,118
Justin Schmaltz	Director	\$ 500	159.00	\$ 79,500
Ernst Pintar	Senior Associate	\$ 425	193.10	\$ 82,068
Restructuring Sub-Total				\$ 424,140
Less: Voluntary Reduction				\$ (169,595)
Adjusted Sub-Total				\$ 254,545
CMS				
Julie Hertzberg	Managing Director	\$ 625	45.40	\$ 28,375
Thomas Behnke	Senior Director	\$ 525	148.50	\$ 77,963
Holden Bixler	Director	\$ 425	26.60	\$ 11,305
Matt Williams	Consultant	\$ 375	158.50	\$ 59,438
Douglas Lewandowski	Consultant	\$ 375	22.70	\$ 8,513
Jeff Sielinski	Consultant	\$ 350	176.05	\$ 61,618
CMS Sub-Total				\$ 247,210
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 247,210
BC-IT				
Mike Askew	Managing Director	\$ 675	18.00	\$ 12,150
Samuel Dimson	Manager	\$ 375	13.00	\$ 4,875
BC-IT Sub-Total				\$ 17,025
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 17,025
Total				\$ 518,780
Out of pocket expenses				\$ 31,593
Total Amount Due (US\$)				\$ 550,373
Less: Application of Retainer				\$ (58,856)
Adjusted Total Amount Due				\$ 491,517

Wire Instructions:

Bank: JP Morgan Chase
ABA: 021000021
Account Number: Alvarez & Marsal LLC
Account Number: 957347804
Reference #: 84979-010



2100 Ross Avenue, 21st Floor
Dallas, TX 75201
Phone: (212) 438-1000
Fax: (212) 438-1001
www.alvarezandmarsal.com

December 22, 2010

Mr. Dennis McGill
Chief Financial Officer
Blockbuster, Inc.
1201 Elm Street
Dallas, Texas 75201

Re: Invoice 84979-011

By Alvarez & Marsal North America, LLC
For the period November 1, 2010
Through November 30, 2010

<u>Professional</u>	<u>Title</u>	<u>Rate</u>	<u>Hours</u>	<u>Total</u>
<u>Restructuring - General</u>				
Jeff Stegenga	Chief Restructuring Officer			\$ 130,000
John Stuart	Senior Director	\$ 575	80.00	\$ 46,000
Justin Schmaltz	Director	\$ 500	118.90	\$ 59,450
Ernst Pintar	Senior Associate	\$ 425	22.70	\$ 9,648
Sub-Total				\$ 245,098
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 245,098
<u>Restructuring - Executory Contract</u>				
Peter Mosley	Associate	\$ 350	13.00	\$ 4,550
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 4,550
<u>CMS - Schedules / Statements</u>				
Julie Hertzberg	Managing Director	\$ 625	2.50	\$ 1,563
Thomas Behnke	Senior Director	\$ 525	55.40	\$ 29,085
Holden Bixler	Director	\$ 425	3.10	\$ 1,318
Matt Williams	Consultant	\$ 375	26.90	\$ 10,088
Douglas Lewandowski	Consultant	\$ 375	8.30	\$ 3,113
Jeff Sielinski	Consultant	\$ 350	0.90	\$ 315
Diego Torres	Consultant	\$ 275	2.60	\$ 715
CMS Sub-Total				\$ 46,195
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 46,195
<u>CMS - Preference Analysis</u>				
Julie Hertzberg	Managing Director	\$ 625	4.40	\$ 2,750
Thomas Behnke	Senior Director	\$ 525	29.20	\$ 15,330
Douglas Lewandowski	Consultant	\$ 375	61.30	\$ 22,988
CMS Sub-Total				\$ 41,068
Less: Voluntary Reduction				\$ -
Adjusted Sub-Total				\$ 41,068
Total				\$ 336,910
Out of pocket expenses				\$ 6,246
Total Amount Due (US\$)				\$ 343,156

Wire Instructions:

Bank: JP Morgan Chase
ABA: 021000021
Account Number: Alvarez & Marsal LLC
Account Number: 957347804
Reference #: 84979-011



2100 Ross Avenue, 21st Floor
Dallas, TX 75201
Phone: (212) 438-1000
Fax: (212) 438-1001
www.alvarezandmarsal.com

January 14, 2011

Mr. Dennis McGill
Chief Financial Officer
Blockbuster, Inc.
1201 Elm Street
Dallas, Texas 75201

Re: Invoice 84979-012

By Alvarez & Marsal North America, LLC
For the period December 1, 2010
Through December 31, 2010

<u>Professional</u>	<u>Title</u>	<u>Rate</u>	<u>Hours</u>	<u>Total</u>
<u>Restructuring - General</u>				
Jeff Stegenga	Chief Restructuring Officer			\$ 130,000
John Stuart	Senior Director	\$ 575	90.5	\$ 52,038
Justin Schmaltz	Director	\$ 500	113.9	\$ 56,950
Mary Napoliello	Paraprofessional	\$ 200	2.8	\$ 560
Sub-Total				\$ 239,548
<u>Restructuring - Executory Contract</u>				
Peter Mosley	Associate	\$ 350	45.5	\$ 15,925
Sub-Total				\$ 15,925
<u>CMS - Claims Management / Reconciliation</u>				
Thomas Behnke	Senior Director	\$ 525	10.8	\$ 5,670
Holden Bixler	Director	\$ 425	6.2	\$ 2,635
Matt Williams	Consultant	\$ 375	4.5	\$ 1,688
Douglas Lewandowski	Consultant	\$ 375	2.6	\$ 975
Sub-Total				\$ 10,968
<u>CMS - Schedules / Statements</u>				
Thomas Behnke	Senior Director	\$ 525	5.7	\$ 2,993
Matt Williams	Consultant	\$ 375	4.1	\$ 1,538
Sub-Total				\$ 4,530
<u>CMS - Preference Analysis</u>				
Thomas Behnke	Senior Director	\$ 525	0.6	\$ 315
Sub-Total				\$ 315
Total				\$ 271,285
Out of pocket expenses				\$ 9,996
Total Amount Due (US\$)				\$ 281,281

Wire Instructions:

Bank: JP Morgan Chase
ABA: 021000021
Account Name: Alvarez & Marsal LLC
Account Number: 957347804
Reference #: 84979-012



2100 Ross Avenue, 21st Floor
Dallas, TX 75201
Phone: (212) 438-1000
Fax: (212) 438-1001
www.alvarezandmarsal.com

February 21, 2011

Mr. Dennis McGill
Chief Financial Officer
Blockbuster, Inc.
1201 Elm Street
Dallas, Texas 75201

Re: Invoice 84979-013

By Alvarez & Marsal North America, LLC
For the period January 1, 2011
Through January 31, 2011

<u>Professional</u>	<u>Title</u>	<u>Rate</u>	<u>Hours</u>	<u>Total</u>
<u>Restructuring - General</u>				
Jeff Stegenga	Chief Restructuring Officer			\$ 130,000
John Stuart	Senior Director	\$ 600	167.5	\$ 100,500
Justin Schmaltz	Director	\$ 525	199.1	\$ 104,528
Peter Mosley	Sr. Associate	\$ 400	32.5	\$ 13,000
Mary Napoliello	Paraprofessional	\$ 200	8.7	\$ 1,740
Less: Voluntary Reduction				\$ (49,768)
Sub-Total				\$ 300,000
<u>Restructuring - Executory Contract</u>				
Peter Mosley	Sr. Associate	\$ 400	89.0	\$ 35,600
Matt Williams	Consultant	\$ 375	1.3	\$ 488
Sub-Total				\$ 36,088
<u>CMS - Claims Management / Reconciliation</u>				
Julie Hertzberg	Managing Director	\$ 625	1.5	\$ 938
Thomas Behnke	Senior Director	\$ 525	18.6	\$ 9,765
Holden Bixler	Director	\$ 425	1.8	\$ 765
Matt Williams	Consultant	\$ 375	31.5	\$ 11,813
Douglas Lewandowski	Consultant	\$ 375	4.3	\$ 1,613
Sub-Total				\$ 24,893
<u>CMS - Schedules / Statements</u>				
Matt Williams	Consultant	\$ 375	0.4	\$ 150
Sub-Total				\$ 150
Total				\$ 361,130
Out of pocket expenses				15,861
Total Amount Due (US\$)				\$ 376,991

Wire Instructions:

Bank: JP Morgan Chase
ABA: 021000021
Account Name: Alvarez & Marsal LLC
Account Number: 957347804
Reference #: 84979-013