

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

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

**SECOND 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  
FEBRUARY 1, 2011 THROUGH APRIL 30, 2011**

For its Second Quarterly Fee Statement for Compensation and Reimbursement of Expenses (the “Quarterly 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.

<sup>1</sup> 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 B<sup>2</sup>LLC (5219).

3. A&M has rendered services on behalf of the Debtors from February 1, 2011 through April 30, 2011 (the "Statement Period") totaling 2,026.7 hours, and in the amount of \$1,215,639, and reimbursement of expenses in the amount of \$80,282. This is net of voluntary fee reductions of in the amount of \$202,135.

4. The Debtors have paid A&M \$1,295,921 for services rendered and expenses incurred during the Statement Period.

### **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 February 1, 2011 through April 30, 2011.

a. 363 / Asset Sales – A&M incurred \$155,768 representing 288.1 hours related to this category. A&M assisted the Debtors with negotiations with Stalking Horse and other prospective 363 bidders, provided support at the 363 Sale auction, and assist with pre- and post-closing matters related to the final transaction.

b. Accounting Cut-off – A&M incurred \$7,928 representing 15.1 hours related to this category. A&M 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.

c. Administrative – A&M incurred \$14,670 representing 41.7 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, general case management, and prepared supplemental affidavits that were filed with the court, in compliance with retention requirements.

e. Business Plan – A&M incurred \$18,420 representing 34.8 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.

f. Cash/Treasury Management – A&M incurred \$231,278 representing 446.7 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.

g. Claims Management – A&M incurred \$156,938 representing 336.4 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. Furthermore, A&M assisted the Debtors with implementation of the administrative stay and allocation of sale proceeds.

h. Communication – A&M incurred \$1,140 representing 1.9 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.

i. Contract – A&M incurred \$15,380 representing 31.1 hours related to this category. A&M assisted the Debtors with contract analyses and the potential assumption or rejection of contracts.

j. Court Hearings – A&M incurred \$11,100 representing 18.5 hours related to this category. A&M prepared for and attended the Debtors’ hearings.

k. Information – A&M incurred \$303,408 representing 612.6 hours related to this category. A&M assisted the Debtors with responding to information requests from various constituents including senior lender and bondholder representatives. Additionally, A&M assisted with due diligence for the Stalking Horse and prospective bidders.

l. Motions/Order – A&M incurred \$21,578 representing 36.5 hours related to this category. A&M assisted the Debtors with preparation of case related motions and orders.

n. Status Meetings – A&M incurred \$20,373 representing 36.1 hours related to this category. A&M incurred time preparing for and attending status meetings.

o. Travel – A&M incurred \$41,708 representing 77.2 hours related to this category. The category includes working and non-working travel time reflected at ½ time incurred.

p. Vendor – A&M incurred \$28,088 representing 50.0 hours related to this category. A&M assisted the Debtors with vendor related items including, but not limited to, accounts payables, contracts and vendor issue resolution.

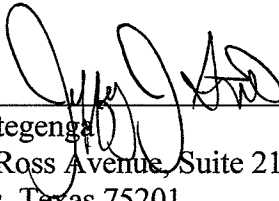
A&M further submits its costs expended on behalf of the Debtors for the period February 1, 2011 through April 30, 2011 in connection with these Chapter 11 proceedings in the sum of \$80,282 as set forth in the summary attached as Exhibit C.

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: July 13, 2011

Respectfully submitted,

**Alvarez & Marsal North America, LLC**

By:   
\_\_\_\_\_  
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*Exhibit A*

**Alvarez & Marsal North America, LLC**  
**Summary of Compensation & Expenses - Blockbuster Inc., et al.,**  
**February 1, 2010 through April 30, 2011**

| <b>Period</b>                    | <b>Fees</b>         | <b>Expenses</b>  | <b>Total</b>        |
|----------------------------------|---------------------|------------------|---------------------|
| February 1-28, 2011              | \$ 443,573          | \$ 28,994        | \$ 472,567          |
| March 1-31, 2011                 | 527,283             | 31,205           | 558,488             |
| April 1-30, 2011                 | 446,918             | 20,083           | 467,001             |
| <i>Less: Voluntary Reduction</i> | (202,135)           | -                | (202,135)           |
| <b>Total</b>                     | <b>\$ 1,215,639</b> | <b>\$ 80,282</b> | <b>\$ 1,295,921</b> |

*Exhibit B*

**Alvarez & Marsal North America, LLC  
Summary of Hours by Professional - Blockbuster Inc., et al.,  
February 1, 1011 through April 30, 2011**

| Professional     | Title             | Hourly Rate | Hours Billed |              |              |                | Total               |
|------------------|-------------------|-------------|--------------|--------------|--------------|----------------|---------------------|
|                  |                   |             | Feb 1-28     | March 1-31   | April 1-30   | Total          | Compensation        |
| Jeff Stegenga*   | CRO               | fixed fee   | 0.0          | 0.0          | 0.0          | 0.0            | \$ 390,000          |
| Mike Askew       | Managing Director | \$675       | 0.0          | 5.0          | 0.0          | 5.0            | 3,375               |
| Julie Hertzberg  | Managing Director | \$625       | 5.6          | 9.5          | 10.0         | 25.1           | 15,688              |
| Daniel Spragg    | Managing Director | \$500       | 0.0          | 0.0          | 22.0         | 22.0           | 11,000              |
| John Stuart      | Senior Director   | \$600       | 217.7        | 220.5        | 132.8        | 571.0          | 342,600             |
| Tom Behnke       | Senior Director   | \$525       | 22.7         | 35.3         | 79.4         | 137.4          | 72,135              |
| Justin Schmaltz  | Director          | \$525       | 197.0        | 255.4        | 212.4        | 664.8          | 349,020             |
| Holden Bixler    | Director          | \$425       | 3.5          | 0.0          | 6.8          | 10.3           | 4,378               |
| Peter Mosley     | Senior Associate  | \$400       | 134.5        | 201.4        | 110.3        | 446.2          | 178,480             |
| Doug Lewandowski | Consultant        | \$375       | 0.0          | 37.4         | 47.7         | 85.1           | 31,913              |
| Matt Williams    | Consultant        | \$375       | 18.7         | 18.1         | 2.6          | 39.4           | 14,775              |
| Jeff Sielinski   | Consultant        | \$350       | 2.2          | 0.0          | 0.0          | 2.2            | 770                 |
| Diego Torres     | Consultant        | \$275       | 0.0          | 0.0          | 0.0          | 0.0            | -                   |
| Mary Napoliello  | Paraprofessional  | \$200       | 5.2          | 8.4          | 4.6          | 18.2           | 3,640               |
| <b>Total</b>     |                   |             | <b>607.1</b> | <b>791.0</b> | <b>628.6</b> | <b>2,026.7</b> | <b>\$ 1,417,774</b> |

\*Jeff Stegenga

Feb 1-28, 2011 \$130,000

March 1-31, 2011 \$130,000

April 1-30, 2011 \$130,000

*Exhibit C*

**Alvarez & Marsal North America, LLC**  
**Summary of Hours by Professional - Blockbuster, Inc., et al.,**  
**February 1, 2011 through April 30, 2011**

| <b>Expense Category</b>          | <b>Feb 1-28</b>  | <b>March 1-31</b> | <b>April 1-30</b> | <b>Total</b>     |
|----------------------------------|------------------|-------------------|-------------------|------------------|
| Airfare                          | \$ 17,658        | \$ 17,353         | \$ 10,692         | \$ 45,703        |
| Lodging                          | 7,099            | 9,466             | 8,594             | 25,159           |
| Transportation                   | 2,947            | 2,602             | 2,990             | 8,538            |
| Meals                            | 968              | 1,124             | 1,328             | 3,420            |
| Miscellaneous                    | 323              | 660               | 479               | 1,461            |
| <i>Less: Credit for Feb Est.</i> | -                | -                 | (4,000)           | (4,000)          |
| <b>Total</b>                     | <b>\$ 28,994</b> | <b>\$ 31,205</b>  | <b>\$ 20,083</b>  | <b>\$ 80,282</b> |



*Exhibit D*

**Alvarez & Marsal North America, LLC  
Summary of Fees by Task Category - Blockbuster Inc., et al.,  
February 1, 2011 through April 30, 2011**

| <b>Task Category</b> | <b>Feb 1-28</b> | <b>March 1-31</b> | <b>April 1-30</b> | <b>Total</b> |
|----------------------|-----------------|-------------------|-------------------|--------------|
|----------------------|-----------------|-------------------|-------------------|--------------|

**CRO**

CRO - fixed fee \$ 130,000 \$ 130,000 \$ 130,000 \$ 390,000

**Additional Personnel**

|  |                   |                   |                   |                     |
|--|-------------------|-------------------|-------------------|---------------------|
| 363 / Asset Sales                      | 14,333            | 31,763            | 109,673           | 155,768             |
| Accounting/Cut-off                     | 2,888             | 5,040             | -                 | 7,928               |
| Administrative                         | 3,193             | 7,140             | 4,338             | 14,670              |
| Business Plan                          | 5,640             | 1,300             | 11,480            | 18,420              |
| Cash/Treasury Management               | 101,500           | 96,308            | 33,470            | 231,278             |
| Claims Management                      | 24,688            | 45,283            | 86,968            | 156,938             |
| Communication                          | 720               | 420               | -                 | 1,140               |
| Contract                               | 6,280             | 9,100             | -                 | 15,380              |
| Court                                  | -                 | 11,100            | -                 | 11,100              |
| Information                            | 122,233           | 146,263           | 34,913            | 303,408             |
| Motions/Orders                         | 7,260             | 7,793             | 6,525             | 21,578              |
| Status Meetings                        | 6,300             | 5,760             | 8,313             | 20,373              |
| Travel                                 | 7,245             | 17,820            | 16,643            | 41,708              |
| Vendor                                 | 11,295            | 12,195            | 4,598             | 28,088              |
| <b>Subtotal - Additional Personnel</b> | <b>\$ 313,573</b> | <b>\$ 397,283</b> | <b>\$ 316,918</b> | <b>\$ 1,027,774</b> |