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March 2, 2005

Honorable Deborah Platt Majoras
Federal Trade Commission
Sixth Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20580

Blockbuster/Hollywood
File No. 051-0058

Dear Chairman Majoras:

Our client, Blockbuster Inc., learned for the first time at 9:30 pm last night via an e-mail from the staff that the Commission had considered and authorized the staff to commence an action in federal district court under Section 13(b) of the Federal Trade Commission Act and Section 7A(g)(2) of the Hart-Scott-Rodino Act. This action, we are told, would assert certain alleged deficiencies in Blockbuster's initial Notification and Report Form filed December 28, 2004, and Blockbuster's February 4, 2005, response to the second request issued January 12, 2005.

Blockbuster respectfully requests that the Commission reconsider this authorization for the following reasons:

1. Contrary to long-standing Commission tradition, Blockbuster received no notice that litigation was under consideration and was afforded no opportunity to be heard by the Commissioners prior to the vote. There was more than adequate time for notice and an opportunity to be heard: the waiting period in this matter does not expire until 11:59 pm on Monday, March 7, 2005, and Blockbuster cannot acquire shares pursuant to its tender offer until after March 11, 2005.

2. The vote deprives Blockbuster of its administrative rights of appeal under Section 7A(e)(1)(B)(i)(II).[1]

3. The second request contained well over 100 specifications and subspecifications. In response, Blockbuster produced on a rolling basis the equivalent of over 1900 boxes of documents responsive to the request's document demands as well as a 116-page written response and 22 boxes of documents and 83 CDs containing data and information responsive to the request's interrogatory specifications.

4. The staff's e-mail last night stated that the challenge to the adequacy of Blockbuster's second request submission is based on alleged deficiencies in providing data to Specifications 17(a) and 17(e).

    a. Responses to both specifications were provided to the staff on February 2, 2005, as part of the rolling production and prior to the submission of Blockbuster's compliance certificate.

    b. The deficiency with respect to Specification 17(a), which pertains to incorrectly compiled data, was first brought to our attention on February 16, 14 days after the response was first provided to the staff. The details of the staff's concern about the data were not immediately clear, and it took several days of discussions with the staff and our client before the nature of the problem—an inadvertent programming error in the compilation of the data—was discovered. Upon discovery, Blockbuster quickly turned to producing a corrected version of the spreadsheet, which was submitted to the staff on February 22.[2]

    c. The deficiency with respect to Specification 17(e), which pertains to a possibly corrupt electronic file that the staff could not open, was first brought to our attention on February 23, 2005, three weeks after the file was submitted to the staff. Blockbuster advised the staff that it should attempt to open the file with a .csv-compatible program such as Microsoft Access and not a spreadsheet program such as Microsoft Excel. After the staff informed us on March 1 that it still could not open the file, Blockbuster immediately sent another copy of the file to the staff that afternoon. Blockbuster has not yet been apprised whether the staff can open this file.[3]

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1 In the event that Blockbuster and the staff failed to reach a resolution of the deficiency dispute, Blockbuster intended to file an appeal with the General Counsel under Section 7A(e)(1)(B)(i)(II) ("Appeal") at 2:00 pm this afternoon. An advance copy of the papers that will initiate the Appeal are attached. The cover letter explains in detail the process to this point, while Attachment 3 provides Blockbuster's 17-page response to the staff's various deficiency claims. Attachment 4 provides the staff's one paragraph summary rejection of Blockbuster's arguments. In the absence of any resolution of the dispute at 2:00 pm this afternoon, Blockbuster will file the Appeal as originally planned.

2 For more detail, see Appeal Attachment 3, at 6-10.

3 For more detail, see Appeal Attachment 3, at 12 fn.23, and Attachment 5, at 2.

d. A formal deficiency notice relating to both deficiencies was issued to Blockbuster on February 24, 2005, 22 days after the data were first supplied to the staff and 20 days after Blockbuster certified compliance with the second request.

5. The alleged deficiency with respect to Blockbuster's initial Notification and Report Form pertains to the failure to include a document dated August 8, 2004, prepared by AGM, a third-party consulting firm.

   a. AGM has not been at any time retained by Blockbuster to advise it on the Hollywood transaction.

   b. The AGM document, which suggested a number of transactions of which the Hollywood acquisition was only one, was part of "pitch piece" to encourage Blockbuster to retain AGM as a financial advisor to evaluate one or more of a variety of deals.

   c. The content of the document that allegedly makes it a 4(c) document consists of four simple bullets points on one page (which also contains other content regarding other possible transactions). Each of the four points is widely known publicly, contained in Hollywood's Form 10-K (which presumably was filed with the initial Hollywood HSR form), and, perhaps most significantly, addressed in far more detail by Blockbuster in its three-and-a-half hour presentation to the staff on December 21, 2004, a week before Blockbuster submitted its HSR form.[4]

6. There is no allegation or evidence to support a finding that Blockbuster acted in bad faith in the various filings and submissions Blockbuster made.

Although Blockbuster will vigorously defend against any proceeding the Commission initiates and welcomes the opportunity on this record to help establish the law in this essentially untested area, Blockbuster respectfully submits that the efforts and resources of everyone involved would be much better spent seeking a resolution of the competitive merits investigation.

Notwithstanding the fact that Blockbuster believes that the acquisition of Hollywood in its entirety would be procompetitive, in the interest of expediency Blockbuster has repeatedly attempted to engage the staff in settlement negotiations. In its first presentation to the staff on December 21, 2004, Blockbuster identified a principle to guide these negotiations in identifying individual stores to be divested under a consent order. Blockbuster repeatedly has brought this principle to the attention of the staff in seeking to begin discussions. Blockbuster also has invited the staff on multiple occasions to suggest, however tentatively, an alternative principle so that we may begin settlement negotiations. Blockbuster has been completely stymied in these efforts.

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[4] For more detail, see Appeal Attachment 3, at 14-16.

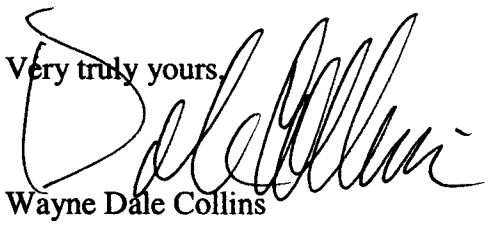
This transaction arises in the unusual contest today of a contested hostile takeover. Hollywood has signed a definitive merger agreement with Movie Gallery subject to Hollywood shareholder approval. A Hollywood shareholders' meeting for this vote will be scheduled shortly, and all observers agree that if regulatory uncertainty exists over Blockbuster's ability to close the transaction at the time of the meeting, the Hollywood shareholders will vote to approve the Movie Gallery merger. As a result, it has been incumbent upon Blockbuster to move the process forward as quickly as possible, while preserving its rights to make its case in federal district court should the Commission challenge the transaction.

There remains ample time, however, to join issue and resolve any conerns in the competitive merits review. Blockbuster seeks your assistance in moving this process forward.

I would be delighted to discuss any of the deficiency questions raised by the staff or any other questions about the transaction with you or a member of your staff at your convenience. We can do this over the telephone, or if you like, I can be in Washington to meet with you on several hours notice.

Best regards.

Very truly yours,



Wayne Dale Collins

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