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HOLLYWOOD ENTERTAINMENT CORP
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Subject Company: Hollywood Entertainment Corporation

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Blockbuster, FTC Headed for Showdown?

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Blockbuster Inc. appeared ready to move ahead with its \$14.50-per-share hostile bid for Hollywood Entertainment as early as March 21, and was ready for a legal showdown with the Federal Trade Commission (FTC) should it attempt to stop the effort.

We are going ahead [with the hostile bid] as soon as we can do it, said Blockbuster's VP and general counsel Ed Stead. The next move is [the FTC's]. If they challenge us [in court], we will meet them head on.

Blockbuster had agreed to a two-week extension to the original March 11 offer target date in order to give the FTC more time to analyze its acquisition proposal.

Blockbuster has been having meetings with FTC staff, providing additional information in support of a potential Blockbuster acquisition of its No. 2 rival, with the expectation that the FTC would provide feedback as to its assessment of the current marketplace and Blockbuster's acquisition proposal, according to Stead. But Stead said that in a meeting last week, FTC staff said they were instructed not to share any information with Blockbuster.

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We have been telling them we are willing to compromise to get this done quickly, but it's hard to know whether or how to compromise when you don't know what the other party is thinking. Stead said. I can only conclude from the fact that they are unwilling to engage in any discussion about compromise and unwilling to share any information, that they have already decided they are not interested in resolving this.

Mitch Katz, a spokesperson for the FTC, said the commission would have no comment on the matter.

Stead said it appears to him that the FTC is not accepting Blockbuster's position that its merger with Hollywood no longer would have the overwhelming competitive impact it may have had the last time the FTC considered a merger between the two in 1999. The market has diversified over the past five years from one dominated by brick-and-mortar video stores, to a market where consumers have a much wider variety of alternatives to viewing movies in the home that also include online rentals, video-on-demand and mass merchant sellthrough pricing.

Look at the your own name [change], Stead said, referring to *Home Media Retailing*'s recent name change from *Video Store Magazine*. [The FTC] seems committed to looking at a market that doesn't exist any longer, Stead said.