



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE
IN AND FOR NEW CASTLE COUNTY

BEVERLY PFEFFER,
individually, and on behalf of all others
similarly situated,

Plaintiff,

v.

SUMNER M. REDSTONE, GEORGE S.
ABRAMS, DAVID R. ANDELMAN,
JOSEPH A. CALIFANO, JR., WILLIAM S.
COHEN, PHILIPPE P. DAUMAN, ALAN C.
GREENBERG, JAN LESCHLY, SHARI
REDSTONE, FREDERIC V. SALERNO,
WILLIAM SCHWARTZ, PATTY
STONESIFER, ROBERT D. WALTER,
NATIONAL AMUSEMENTS, INC., JOHN
F. ANTIOCO, RICHARD J. BRESSLER,
JACKIE M. CLEGG, MICHAEL D.
FRICKLAS, LINDA GRIEGO, JOHN L.
MUETHING and CBS CORP. (f.k.a.
VIACOM, INC.),

Defendants.

C.A. No. 2317-N

AMENDED CLASS ACTION COMPLAINT¹

Plaintiff BEVERLY PFEFFER, on behalf of herself and all others similarly situated, by her attorneys, alleges upon knowledge with respect to facts concerning herself, and as to all other matters, which generally concern facts not in Plaintiff's possession, upon information and belief, as follows:

¹ A redlined copy of this Amended Class Action Complaint, showing the changes from the original Class Action Complaint filed August 3, 2006, is attached hereto as Exhibit A.

NATURE OF ACTION

1. This is a class action on behalf of all former Viacom Inc. ("Viacom") stockholders who tendered their Viacom stock in exchange for common shares of the stock of Blockbuster, Inc. ("Blockbuster") as part of the Blockbuster Split-Off Exchange Offer commenced on September 8, 2004 and completed on October 5, 2004 (the "Exchange Offer"). This is also a class action on behalf of all Blockbuster shareholders who held their shares at the time of a special dividend declared by the Blockbuster board of directors in June 2004. The special dividend ("Special Dividend") was declared by the Blockbuster board as a part of and in connection with the Exchange Offer.

2. The directors of Viacom at the time of the Exchange Offer breached their fiduciary duty of disclosure to Viacom shareholders by causing a prospectus to be issued on or about September 8, 2004 (the "Prospectus") that failed to disclose and/or misrepresented material facts relating to the Exchange Offer itself, as well as Blockbuster's current financial position and its prospects for the future.

3. Viacom's directors also breached their fiduciary duty of loyalty to Viacom's minority shareholders by causing Viacom to enter into the Exchange Offer in order to benefit defendant Sumner Redstone and his closely held company National Amusements, Inc. ("NAI"), which at all relevant times was the controlling shareholder of Viacom. Among other things, the Exchange Offer reduced Viacom's public float, thereby solidifying NAI's and, by extension, Redstone's, control over Viacom. Further, based on their position with and control over Viacom (and thus Blockbuster), NAI and Redstone were well aware of Blockbuster's operational difficulties and inability to meet its projected business plan, and were thus highly motivated to cause Viacom to divest its interest in Blockbuster at the expense of Viacom's minority

shareholders. By misleading Viacom's minority shareholders regarding the financial and business prospects of Blockbuster, and by permitting the Exchange Offer to proceed without the participation of NAI and Redstone, the Viacom's directors elevated the interests of Viacom's majority stockholder, NAI, over the interests of Viacom's minority shareholders and thereby breached their fiduciary duty of loyalty to Viacom's minority shareholders.

4. NAI, as Viacom's controlling/majority shareholder, breached its fiduciary duty to minority shareholders by causing the Director Defendants to engage in a course of conduct that harmed minority Viacom shareholders who tendered their shares in the Exchange Offer and correspondingly benefited NAI.

5. Plaintiff also brings this action on behalf of the minority shareholders of Blockbuster, who were disproportionately harmed by the declaration of the Special Dividend. The Blockbuster board – dominated by and beholden to Blockbuster's controlling/majority shareholder, Viacom – breached its fiduciary duties to the Blockbuster minority shareholders by disproportionately favoring Viacom with the Special Dividend. Viacom was disproportionately benefited by the Special Dividend because it was going to spin-off its Blockbuster holdings shortly after receiving the Special Dividend. In so doing, Viacom breached its own fiduciary duties owed to the Blockbuster minority and “took the money and ran,” leaving Blockbuster's minority in a corporation that was saddled with the crippling debt necessary to fund the Special Dividend.

JURISDICTION AND VENUE

6. This Court has jurisdiction over the instant action under 10 Del. C. §§ 341 and 3114.

PARTIES

7. Plaintiff BEVERLY PFEFFER is an individual and a resident of Queens, New York. Plaintiff tendered Viacom stock personally owned by her in the Exchange Offer, and did so in reliance on the Prospectus and Defendants' other public statements describing Blockbuster and the Exchange Offer. Plaintiff also owned Blockbuster Class A and B shares at the time of the declaration of the Special Dividend.

8. Defendant SUMNER REDSTONE ("Redstone") is Viacom's founder and was Viacom's Chief Executive Officer and Chairman of the Board of Viacom at all times relevant to the Complaint herein. Redstone has been Chairman of the Board of Defendant National Amusements, Inc. ("NAI"), Viacom's controlling stockholder, since 1986. Redstone was also a director of Blockbuster from May 1999 until October 16, 2004.

9. Defendant GEORGE S. ABRAMS ("Abrams") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein. Abrams is also a director of NAI.

10. Defendant DAVID R. ANDELMAN ("Andelman") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

11. Defendant JOSEPH A. CALIFANO, JR. ("Califano") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

12. Defendant WILLIAM S. COHEN ("Cohen") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

13. Defendant PHILIPPE P. DAUMAN ("Dauman") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein. Dauman is also a director of NAI. Dauman was also a director of Blockbuster from January 1995 to October 16, 2004.

14. Defendant ALAN C. GREENBERG ("Greenberg") was member of Viacom's Board of Directors at all times relevant to the Complaint herein. Greenberg is also a director of Bear Stearns, which served as co-manager of the Exchange Offer.

15. Defendant JAN LESCHLY ("Leschly") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

16. Defendant SHARI REDSTONE was a member of Viacom's Board of Directors at all times relevant to the Complaint herein, and is the daughter of Sumner Redstone.

17. Defendant FREDERIC V. SALERNO ("Salerno") was member of Viacom's Board of Directors at all times relevant to the Complaint herein. Salerno is also a director of Bear Stearns, which served as co-manager of the Exchange Offer.

18. Defendant WILLIAM SCHWARTZ ("Schwartz") was member of Viacom's Board of Directors at all times relevant to the Complaint herein.

19. Defendant PATTY STONESIFER ("Stonesifer") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

20. Defendant ROBERT D. WALTER ("Walter") was a member of Viacom's Board of Directors at all times relevant to the Complaint herein.

21. Collectively, defendants Redstone, Abrams, Andelman, Califano, Cohen, Dauman, Greenberg, Leschly, Shari Redstone, Salerno, Schwartz, Stonesifer, and Walter are referred to herein as the "Viacom Director Defendants."

22. Defendant NAI was a controlling shareholder of Viacom at all relevant times to the Complaint herein.

23. Defendant John F. Antioco ("Antioco") has been Blockbuster's Chairman and CEO since 1997.

24. Defendant Richard J. Bressler (“Bressler”) was a director of Blockbuster from May 2001 until October 16, 2004. During his tenure on the Blockbuster board, Bressler was also Senior Executive Vice President and Chief Financial Officer of Viacom.

25. Defendant Jackie M. Clegg (“Clegg”) has been a director of Blockbuster since July 2003.

26. Defendant Michael D. Fricklas (“Fricklas”) was a director of Blockbuster from June 2, 2004 until October 16, 2004. During his tenure on the Blockbuster board, Fricklas was Executive Vice President, General Counsel and Secretary of Viacom.

27. Defendant Linda Griego (“Griego”) was a director of Blockbuster from July 1999 until through May 11, 2005, when she failed to win reelection to the Blockbuster board.

28. Defendant John L. Muething (“Muething”) was a director of Blockbuster from July 1999 to December 31, 2005.

29. Collectively, defendants Antioco, Bressler, Glegg, Dauman, Fricklas, Griego, Muething and Redstone are referred to herein as the “Blockbuster Director Defendants.”

BACKGROUND

30. During September and October 2004, Redstone, Viacom’s founder and executive chairman, and his controlled board, spun off Viacom subsidiary Blockbuster and then purported to offer a 19.2% premium to Viacom’s shareholders to take Viacom out of Blockbuster. However, Redstone did not exchange his Viacom shares (held, in large part, by his company, NAI) in the Exchange Offer because both he and Viacom’s Board knew the truth – that Blockbuster had serious operational difficulties and was crippled by a special dividend that Redstone and his controlled Board caused Blockbuster to declare in conjunction with the Exchange Offer.

31. By the time that the truth about Blockbuster began to be revealed in November 2005, Blockbuster's shares had declined by approximately 45%. As a result, the Exchange Offer was not at the promised 19.2% premium, but at a 34.5% discount, or approximately \$3.45 per share.

Background Information Regarding Viacom, NAI and Blockbuster

32. In the fall of 2004, and at all times relevant to these proceedings, Viacom was a Delaware corporation with its principal place of business in New York City. In June 2005, Viacom announced a plan to separate into two companies. That separation was completed on December 31, 2005, by spinning off a new publicly traded company – called “Viacom Inc.” – that consists of the advertising-supported cable networks business, the Paramount Pictures business and Famous Music. The other company changed its name upon the separation to “CBS Corporation.” Viacom consists of a portfolio of cable networks and entertainment brands, including MTV Networks (including MTV Music Television, VH1, Nickelodeon, Nick at Nite, Comedy Central, CMT: Country Music Television, Spike TV, TV Land and many other networks around the world), BET, Paramount Pictures, Paramount Home Entertainment and Famous Music. CBS Corporation consists of operations in broadcast television (CBS and UPN), local television (CBS Television Stations Group), television production and syndication (Paramount Television and King World), cable television (Showtime), radio (CBS Radio), advertising on out-of-home media (CBS Outdoor), publishing (Simon & Schuster), theme parks (Paramount Parks), digital media (CBS Digital Media Group and CSTV Networks) and consumer products (CBS Consumer Products). This separation has no impact on the claims asserted herein.

33. NAI is a closely held corporation that owns and operates movie screens in the United States, the United Kingdom, South America and Russia. As of September, 2004, NAI

had voting control of Viacom through its beneficially owned Class A Common Stock, representing approximately 71% of the voting power of all classes of Viacom's Common Stock, and approximately 12% of Viacom's Class A Common Stock and Class B Common Stock on a combined basis. (Owners of Viacom's Class A Common Stock are entitled to one vote per share. Viacom's Class B Common Stock does not have voting rights).

34. Redstone, the controlling shareholder, chairman of the board of directors, and chief executive officer of NAI, is also the Chairman of the Board of Directors and Chief Executive Officer of Viacom. As Viacom noted in its 2005 Form 10-K, Redstone, through his controlling stake in NAI, exerts considerable influence over all aspects of Viacom's business:

. . . NAI, through its beneficial ownership of the Company's Class A common stock, has voting control of the Company. Sumner M. Redstone, the controlling shareholder of NAI, is the chairman of the board and chief executive officer of the Company, and Shari Redstone, president of NAI, is a director of the Company. **NAI is in a position to control the outcome of corporate actions that require shareholder approval, including the election of directors, issuance of securities and transactions involving a change of control.**

(emphasis added).

35. Redstone's daughter, Defendant Shari Redstone, currently serves as non-executive Vice Chairman of Viacom's Board of Directors. As of October of 2004, Shari Redstone served as a director of Viacom and of NAI. Shari Redstone has served as President of NAI since January of 2000.

36. Blockbuster is a Delaware corporation with its principal place of business in Dallas, Texas. Blockbuster is a leading global provider of in-home movies and game entertainment with more than 9,000 stores throughout the Americas, Europe, Asia and Australia. Viacom acquired Blockbuster in 1994, and on August 16, 1999, took Blockbuster public. In the initial public offering, Blockbuster sold to the public 31 million shares of its class A common

stock, representing approximately 18% of its total shares outstanding and about 4% of the total voting power of Blockbuster. Viacom, through its ownership of all of the 144 million shares of Blockbuster class B common stock outstanding, retained approximately 82.3% of the total equity value in, and approximately 95.9% of the total voting power of, Blockbuster. During the period in which Viacom planned and effectuated the Exchange Offer (and the accompanying special dividend), Redstone was, in addition to being Viacom's CEO and Chairman, a member of Blockbuster's Board of Directors.

The Viacom/Blockbuster Split

37. On February 10, 2004, Viacom announced that it would pursue the divestiture of its approximately 81.5% interest in Blockbuster. In a press release, Viacom justified its decision to split "based on the conclusion that Blockbuster would be better positioned as a company completely independent of Viacom." As Viacom noted at the time, the split-off would reduce the number of Viacom shares outstanding. Of course, the effect of a reduction of the public float of Viacom would be to further solidify NAI's (and Mr. Redstone's) control over Viacom.

38. On June 18, 2004, Viacom announced – in a regulatory filing – that the Blockbuster board would declare a special dividend of \$5 a share. The \$905 million payout (for which Viacom would be the primary beneficiary), was to precede the anticipated "split-off" – whereby Viacom holders would be offered Blockbuster stock (pursuant to a ratio still to be determined). As the largest Blockbuster shareholder, Viacom was expected to reap \$738 million of the dividend payment, **tax free** (according to press reports, the dividend was tax-free to Viacom because it represented a recovery of Viacom's basis in its Blockbuster shares).

39. Ultimately, on August 20, 2004, Viacom caused the Blockbuster board to declare a special dividend of \$5 per share – payable September 3, 2004, to Blockbuster shareholders of record at the close of business on August 27, 2004. Blockbuster acknowledged in public filings

that the special dividend was being paid in anticipation of the proposed split-off from Viacom. As the owner of 147,600,352 shares of Blockbuster Class A common stock, Viacom received a tax free dividend of \$738,001,760.

40. To fund the dividend, Blockbuster had to incur a massive amount of new debt – in excess of \$900 million. As set forth in the Prospectus for the Exchange Offer, “Blockbuster incurred additional debt of \$950 million under [a] new credit agreement and through the issuance of . . . senior subordinated notes in order to pay the special distribution to its shareholders and to finance transaction costs and expenses in connection with the split-off and the special distribution.” Thus, by virtue of the special dividend that Viacom caused it to issue, Blockbuster was saddled with debt that (unbeknownst to outsiders) crippled Blockbuster in a very competitive market and left it unable to follow through on recently initiated (and ambitious) business strategies.

41. The fact that the special dividend left Blockbuster unable to meet its business projections was deliberately concealed from Viacom’s minority stockholders. To the contrary, Blockbuster was touting its business plans for growth just days prior to the declaration of the special dividend. On August 11, 2004, Blockbuster issued a press release in which it announced the launch of “Blockbuster Online” – with the claim that the new service “combined with our marketing savvy, should help Blockbuster to develop a substantial share of the online rental business by the end of next year.” Blockbuster’s press release on “Blockbuster Online” noted that (a) “now” was the “opportune time” for Blockbuster to enter the online rental business, and (b) Blockbuster planned to quickly establish itself in this arena “by aggressively marketing, pricing and combining our online program and in-store capabilities.” That same press release also stated that Blockbuster planned to combine its online and store-based subscription programs

in 2005 and that the full integration of the company's online and in-store programs would enable it to provide customers – old and new alike – “with unmatched convenience, service, selection and value.” Blockbuster further stated that it would be “difficult for any store-based or online retailer to replicate our business model because we'll be able to leverage our extensive U.S. store network as distribution points, which should significantly expand our 25,000 title inventory, allow for next-day delivery capability and maximize convenience for our customers – all while enhancing our operating margins and furthering our market leadership.”

42. The status of Blockbuster's rental library was also concealed from Viacom's shareholders. Because the bulk of Blockbuster's rental library assets are new releases, they should have been classified as current assets on Blockbuster's financial statements. Blockbuster was, however, classifying them as non-current assets. This improper classification resulted in a 58% overstatement of cash flow for fiscal 2003 on Blockbuster's financial statements – a fact which was not revealed to Viacom's shareholders at the time of the Exchange Offer.

43. On September 8, 2004, Viacom issued a press release announcing the terms of the Exchange Offer. In that press release, Viacom stated that it had commenced an offer to its stockholders for the exchange, on a tax-free basis, of some or all of their shares of Viacom stock for shares of Blockbuster held by Viacom. Assuming that the Exchange Offer was fully subscribed, Viacom would dispose of its entire ownership interest in Blockbuster, which then totaled approximately 81.5% of Blockbuster's outstanding shares.

44. Under the terms of the Offer, each holder of Viacom Class A Common Stock and Viacom Class B Common Stock would receive 5.15 shares of Blockbuster stock, consisting of 2.575 shares of Blockbuster Class A Common Stock and 2.575 shares of Blockbuster Class B Common Stock, in exchange for each Viacom share tendered. Viacom would accept, pursuant to

the Offer, up to an aggregate of 27,961,165 shares of Viacom Class A and Class B common stock. The press release noted that the Exchange Offer would expire at 12:00 midnight, New York City time, on October 5, 2004.

45. The press release also noted that pursuant to the terms of the Exchange Offer, a shareholder accepting the Offer would receive shares of Blockbuster Common Stock with a value, based on closing market prices on September 7, 2004, representing a premium of approximately 19.2% over the closing price on that date of a share of Viacom Class B Common stock (the premium over the price of a share of Viacom Class A Common Stock on that date was 17.6%). The press release further noted that Viacom currently owned all of Blockbuster's Class B Common Stock – 144 million shares. Subject to the satisfaction of certain conditions to ensure the tax-free nature of the Exchange Offer, Viacom planned to convert 72 million shares of Blockbuster Class B Common Stock, on a one-for-one basis, into shares of Blockbuster Class A Common Stock prior to the completion of the Exchange Offer. As a result of this conversion, the outstanding Blockbuster common stock after completion of the Exchange Offer would consist of approximately 60% Blockbuster Class A Common Stock and 40% Blockbuster Class B Common Stock. As of the close of trading on September 8, 2004, Viacom's stock was trading at \$34.71 per share (the shares lost \$0.24 on the following day). Blockbuster's stock stood at \$7.48 per share at the close of trading on September 8, 2004; and was unchanged as of the close of trading the following day.

46. NAI (and Redstone) did not tender any shares in the Exchange Offer. As noted in the Prospectus issued in connection with Viacom's divestiture of its Blockbuster shares, "[t]he decision not to participate [in the Exchange Offer] [was] consistent with the fact that National

Amusements has never sold or otherwise disposed of any of its holdings in Viacom.” See Prospectus at p. 11.

47. Notwithstanding that it had just taken on a massive debt burden, the Prospectus still painted Blockbuster’s future as very promising. It stated that Blockbuster planned to transform itself “from a place where you go to rent a movie to a brand where you go to rent, buy or trade a movie or game, new or used, pay-by-the-day, pay-by-the-month, in-store or online.” This transformation was to be achieved through a series of initiatives, including Blockbuster Online and “BLOCKBUSTER MOVIE PASS.” While investors were cautioned that new initiatives would require heavy investment, they were told that Blockbuster’s debt obligations would not be an impediment and that “the steady operating cash flow from our core rental business has provided us with the ability to invest in new initiatives.” In this regard, the Prospectus noted that “[b]ased upon current levels of operations and anticipated growth, Blockbuster expects to be able to generate sufficient cash flow to make all of the principal and interest payments when such payments are due under Blockbuster’s new credit agreement and under the indenture governing Blockbuster’s senior subordinated notes”

48. One part of the Prospectus was a letter from Blockbuster’s then Chairman and CEO, John Antioco (“Antioco”). See Prospectus at pp. 1-5. In that letter, Antioco set forth his ambitious vision for Blockbuster noting, among other things, that Blockbuster would “be a multi-dimensional, highly differentiated and highly profitable home entertainment brand” and that he saw tremendous “opportunity for the future growth of Blockbuster.” Antioco also explained that in the prior two years, Blockbuster had gone to great lengths to redefine itself “as a place where customers can not only rent movies and games, but also buy and trade them as well.” In view of Blockbuster’s “ongoing transformation from a ‘rentaling-only’ company into

a specialty retailer of home entertainment,” Antioco noted that it was now “an appropriate time for [Blockbuster] to separate from Viacom” – asserting that while “Blockbuster and Viacom ha[d] different competitive strengths, different operating philosophies, and different strategies designed to achieve future growth . . . **Blockbuster and Viacom [were] united in the belief that a split-off of Blockbuster from Viacom will enable each company, respectively, to better focus its managerial and financial resources.**” (emphasis added).

49. In his letter, Antioco also asserted that as a “fully independent company,” Blockbuster was looking forward to accelerating its transformation “into a specialty retailer of home entertainment.” He added that Blockbuster’s plan going forward was to capture a larger share of the domestic rental market and to drive more rental customers into its stores through a combination of marketing, promotion, and new rental offerings. Antioco specifically pointed to Blockbuster’s new store-based movie subscription program, called BLOCKBUSTER MOVIE PASS, as an example of a strategic initiative that would increase in-store traffic and profitability.

50. Antioco also saw on-line movie rentals as another way in which Blockbuster could “reinvent the way people rent home entertainment”:

As for renting movies online, we see this as a sizable opportunity that can contribute to our long-term profitability. As a defensive strategy, we don't want customers, who are interested in renting online, going anywhere else for their movies. As an offensive move, we think online rentals could represent new customers for us because many potential subscribers live outside the proximity of a BLOCKBUSTER store.

51. To begin serving these potential online customers, Antioco noted that Blockbuster had (a) launched an online rental service in the United Kingdom in mid-May 2004, and (b) launched BLOCKBUSTER Online, its online rental service in the United States, in August 2004. According to Antioco, Blockbuster’s plan was to utilize the full power of its “globally recognized brand, . . . marketing ability, . . . rich customer database and the promotional

opportunities afforded by [its] store network to gain as many subscribers as possible.” He added that Blockbuster saw “no reason why we can't have a substantial share of the online rental transactions by the end of next year” and that Blockbuster also was proceeding with its plans “to merge [its] U.S. in-store and online subscription programs in 2005.” According to Antioco, such an integrated approach would give Blockbuster customers “the best of both worlds - the ability to rent or return movies by mail or at their local BLOCKBUSTER store.”

52. Finally, Antioco went to great lengths to explain that Blockbuster also was aggressively pursuing – and planned to have in place in 2004 – a movie and game trading program. According to Antioco, “movie and game trading at Blockbuster represent[ed] a significant source of future incremental revenues.” While Antioco stated that the company’s DVD program was “still in its early stages,” Blockbuster believed that a strong demand for DVD trading would emerge “as consumers learn that trading is a smart, economical way to refresh their movie libraries or monetize their collections.” The Prospectus set forth that Blockbuster intended to “have movie and game trading available in more than 2,000 of our U.S. stores and all of our 700-plus U.K. stores by the end of 2004.”

53. The Prospectus also stated that Viacom had decided to separate itself from Blockbuster because “[e]ach company believes that the separation of Blockbuster from Viacom will provide numerous corporate benefits to itself and the other company.” Among these benefits were that Viacom and Blockbuster had “significantly different competitive strengths and operating strategies.” In that regard, the Prospectus noted that each company believed that the separation of Blockbuster from Viacom would strengthen its “ability to focus its managerial and financial resources on developing and growing its core businesses.” In the case of Blockbuster, the Prospectus set forth that Blockbuster “share[d] many more characteristics with other retailers

than with Viacom's other businesses.” The Prospectus added that “Blockbuster ha[d] a number of strategic initiatives that it [was] currently pursuing in response to industry changes” (*i.e.*; expansion of its rental subscription programs and the continued development of its movie and games trading model), the execution of which would “move Blockbuster’s business further away from Viacom’s areas of strategic focus.”

54. Another of these purported benefits was that a “split” would resolve the appearance of “competitive conflicts” involving Blockbuster and Paramount Pictures (another of Viacom’s subsidiaries). The Prospectus noted Blockbuster’s belief that other movie studios, which supplied Blockbuster with its movies, considered Blockbuster’s affiliation with Paramount Pictures to be a conflict of interest. The Prospectus further stated that since Paramount Pictures supplied movies to Blockbuster’s competitors in the video rental market, Viacom believed that Blockbuster's competitors (who also were customers of Paramount Pictures) viewed Paramount Pictures as having a conflict of interest.

55. The Prospectus noted a third potential benefit to both companies – to facilitate investment decisions by stockholders. In the view of both companies, it would “be easier for potential investors to assess Viacom and Blockbuster on an independent basis and choose the company in which to invest and in what relative percentages.”

56. The Prospectus also incorporated Blockbuster’s fiscal 2003 financial statements (reported on Form 10-K), which classified Blockbuster’s rental library as non-current assets. The 2003 financial statements showed Blockbuster with a robust cash flow – the very cash flow that the Prospectus expressly stated would fund the new business initiatives – of \$1.43 billion for the year. Thus, the Prospectus portrayed Blockbuster as was well-positioned to execute its business plans.

57. However, unbeknownst to those who were considering tendering shares in the Offer (but known to Viacom and NAI) the Prospectus was riddled with numerous inaccuracies and omissions that if revealed, would have demonstrated that the Prospectus greatly inflated Blockbuster's value.

58. Blockbuster was, in actuality, wholly unprepared to build the technological infrastructure required to integrate its in-store and online sales operations and otherwise execute the company's "transformation." Specifically, Blockbuster, due to outdated equipment and inventory tracking issues, was unable to integrate its in-store and online operations. In this regard, Blockbuster was dependent upon nearly ten-year old servers that were not capable of supporting the revenue and inventory tracking that would be required by the integration of the company's online and in-store operations. As such, there was no reasonable basis for the public statements to the effect that Blockbuster's in-store and online operations would be integrated in 2005.

59. Also, Blockbuster was experiencing difficulties launching its in-store DVD trading program, because it lacked adequate internal controls. Under this program, Blockbuster customers could trade used DVD's with the company. However, it appears that this business was subject to the same record-keeping requirements that governed pawnshops, and required that Blockbuster keep records of who was trading (and how much was being traded). However, these regulations varied from state to state, and Blockbuster did not have adequate systems to collect the necessary data (and, thus, ensure compliance in each relevant jurisdiction).

60. Furthermore, Blockbuster hid significant cash flow problems from investors by (1) overstating cash flow on its balance sheets; (2) hiding a cash flow analysis that showed that

Blockbuster could not both fund the special dividend and finance a changing business plan; and (3) implementing inadequate methods to analyze cash flow.

61. First, the Prospectus materially misrepresented Blockbuster's cash flow. Through the incorporation of Blockbuster's 10-K for fiscal 2003, it presented Blockbuster's cash flow as \$1.43 billion. The reality is that cash flow was overstated by a whopping 58% because Blockbuster was inappropriately classifying its rental library assets as non-current assets. Had Blockbuster been appropriately classifying those assets as current assets, its stated cash flow would have been a meager \$593.7 million in 2003.

62. Second, undisclosed to investors, Julie Mingus, a treasury department manager at Blockbuster, had performed a cash flow analysis in February or March of 2004 that concluded that Blockbuster could not meet its new business objectives. According to an employee who worked in the company's treasury operation department, the purpose of the analysis was to evaluate the company's cash flow over 12 to 18 months to determine whether money from newly incurred debt and operating income was sufficient to both fund the special dividend and help Blockbuster adapt its business plan. The cash flow analysis concluded that the special dividend would leave Blockbuster without the financial resources required to implement its ambitious strategic plan; core in-store rental operations would not generating sufficient cash flow to fund Blockbuster's investment in "new initiatives." It further showed that some of Blockbuster's new initiatives such as its online subscription scheme and its yet to be introduced plan to do away with late fees would not be profitable.

63. Although the cash flow analysis was distributed to senior management of Blockbuster, it was never disclosed in the Prospectus. Indeed, Mary Bell, Senior Vice President

of Investor Relations and Treasurer of Blockbuster (“Bell”), told subordinates not to worry about the cash flow analysis instead of disclosing the analysis to investors.

64. Third, Blockbuster maintained inadequate controls to determine its cash flow at any given time. Since 2002, according to company employees, it was virtually impossible at Blockbuster to match the Company’s treasury cash flow with its GAAP cash flow. The irreconcilable difference was partly due to general mismanagement and partly due to the specific deception concerning classification of rental library income. One employee called Blockbuster’s internal systems cumbersome, stating that it was difficult to nail down a figure for cash flow because there were different systems to analyze money flowing into the company.

65. Furthermore, a former Blockbuster systems analyst said that Blockbuster’s accounting systems were so poor, it was impossible to determine revenue because the accounting and finance departments recorded radically different numbers.

66. Senior Blockbuster management was aware of the cash flow analysis problems. Specifically, former employees have stated that Bell and Dean Lotufo, Vice President of Budgeting & Forecasting, were aware the company could not accurately calculate cash flow. Additionally, Larry J. Zine, Executive Vice President, Chief Financial Officer and Chief Administrative Officer of Blockbuster even offered a bonus to any person who could fix the problem. However, because of the special dividend and the burdens of financing new business strategies, Blockbuster did not have the resources to fix its problems of analyzing cash flow. Nevertheless, such information was not disclosed in the Prospectus. Instead, the Prospectus downplayed known Blockbuster cash flow problems and grossly overestimated cash flow.

67. Also, Blockbuster financial analysts presented Antioco and other members of Blockbuster’s senior management with forecasting models showing that Blockbuster’s proposed

subscription service would not be profitable for the company. Instead of disclosing these models to investors, Blockbuster executives altered the models to fraudulently show that the new initiative would be profitable.

68. Redstone, a director of Blockbuster and Viacom, knew about (1) the inflated cash flow from rental libraries; (2) the cash flow analysis showing that Blockbuster could not finance its changing business plan, (3) the inadequate systems to calculate cash flow, and (4) the forecasting models showing that Blockbuster's subscription service would not be profitable. Additionally, other members of Viacom's and Blockbuster's board of directors knew or should have known that the Prospectus contained omissions and false statements.

69. Furthermore, both Viacom and NAI knew that the Exchange Offer was not engineered to "benefit" Blockbuster, but rather, to (i) allow Viacom to reduce the public float of Viacom stock (and further solidify the control of NAI and Sumner Redstone over Viacom) and (ii) ensure that Viacom could put an end to its relationship with Blockbuster, which faced numerous undisclosed hurdles as it sought to effectuate a bold business plan. Indeed, several news stories confirm Mr. Redstone's preoccupation with reducing the public float of Viacom's stock. In an October 28, 2004 press release – just weeks after the Exchange Offer was completed – Viacom proudly boasted in a press release that the "Blockbuster split-off . . . [had] resulted in the reduction of approximately 28 million outstanding Viacom shares" and that Viacom now intended "to aggressively reduce our equity base even further under our \$8 billion stock purchase program."

70. The Prospectus also was deficient in several other respects as well. Viacom offered only a meager explanation of how it determined the Exchange Ratio – specifically that each holder of Viacom Class A Common Stock and Viacom Class B Common Stock would

receive 5.15 shares of Blockbuster stock, consisting of 2.575 shares of Blockbuster Class A Common Stock and 2.575 shares of Blockbuster Class B Common Stock, in exchange for each Viacom share tendered. In setting the Ratio, Viacom purported to consider, “among other things,” the:

- “recent and historical market prices on the New York Stock Exchange for shares of Viacom class A and class B common stock and Blockbuster class A common stock” and;
- “discussions with the co-dealer managers as to what exchange ratio might induce Viacom shareholders to tender Viacom class A or class B common stock in this exchange offer so that all (or the greater percentage) of the shares of Blockbuster class B common stock and converted class A common stock that Viacom holds will be distributed.”

Prospectus at p. 71. At best, this disclosure was incomplete. Viacom shareholders were entitled to know precisely how the Exchange Ratio was calculated – not just two factors that were (in Viacom’s own words) “among other[s]” considered.

71. The Prospectus further omitted critical information regarding the process by which Viacom’s Board approved the Blockbuster Split-Off. In this regard, the Prospectus disclosed:

On June 17, 2004, a committee of Viacom’s board of directors delegated with the authority to approve the final form of the divestiture of Blockbuster from Viacom approved the divestiture by means of the split-off contemplated by this Prospectus-Offer to Exchange. The committee also approved Viacom’s entry into the various separation agreements described on the section entitled “Agreements Between Viacom and Blockbuster and Other Related Party transactions” beginning on page 106.

Prospectus at p. 53. Conspicuously absent from the Prospectus, however, was any mention of who served on this “committee.” This information was important and material since, *inter alia*, two of Viacom’s directors (Greenberg and Salerno) were affiliated with Bear Stearns which served as co-deal manager for Viacom’s split-off of Blockbuster and numerous of Viacom’s

directors had ties to Viacom's controlling shareholder, NAI. Indeed, the Prospectus made no mention of the fact that Salerno was a director of Bear Stearns (it mentioned only Greenberg's affiliation with that entity). See Prospectus at p. 125. Moreover, while the Prospectus did mention that Redstone was the Chairman and CEO of NAI (Viacom's controlling shareholder), it did not mention that several other Viacom directors (such as Shari Redstone, Abrams and Dauman) also had ties to and/or served on the Board of NAI.

The Truth About Blockbuster Begins to Emerge

72. Following the completion of the Exchange Offer, the truth about Blockbuster's operational problems and debt burden began to emerge. On October 27, 2004, Blockbuster issued a press release in which it announced that it expected "profitability for the fourth quarter of 2004 to decline significantly from last year based on an estimated low-single digit percentage decline in worldwide same-store revenues, a significant year-over-year increase in operating expenses associated with the development and launch of the key growth initiatives, an anticipated compensation charge ranging from \$60 to \$ 80 million associated with an employee stock option exchange offer **and higher interest expense resulting from the assumption of debt as a result of payment of the special distribution to stockholders in September 2004.**"

(emphasis added). At that same time, Blockbuster further noted that:

Profitability for the full-year 2004 will decline significantly because of the goodwill impairment charge, the accelerated initiative investment, **continued weakness in the rental business**, the anticipated charge associated with the employee stock option exchange offer **and higher interest expense associated with the additional \$950 million in debt**. As a result, the Company's prior per share from adjusted diluted earnings per share of \$1.48 for the full-year 2003 is no longer relevant and year-over-year results are not comparable.

(emphasis added). Blockbuster also announced that "projected softness in rental revenues" would adversely affect profitability for 2005.

73. In March 2005, Blockbuster announced its “current expectations” for the year, noting that (a) it expected “operating income for the full year 2005 to be flat” and (b) operating income for the first quarter of 2005 would “be reduced,” *inter alia*, by approximately \$80 million in projected operating income from extended viewing fees and approximately \$60 million in operating costs for BLOCKBUSTER Online. At the close of trading on March 31, 2005, Blockbuster’s shares stood at \$8.83 per share (while Viacom’s shares were trading at \$34.83 per share).

74. By August 9, 2005, the situation at Blockbuster had deteriorated even further. As noted in one press report:

Shares of Blockbuster Inc. dropped sharply after the nation's biggest movie-rental chain said it fell to a \$57.2 million loss in the second quarter . . .

Blockbuster also withdrew its full-year forecast of financial results and said it negotiated with lenders to prevent a high debt ratio from triggering default on a line of credit.

Blockbuster shares fell 92 cents, or 11 percent, to close at \$7.09 Tuesday [August 9] on the New York Stock Exchange. They have ranged from \$6.50 to \$13.95 in the past 52 weeks.

In the three months ended June 30, Blockbuster’s loss was 31 cents per share, compared with profit of \$48.6 million, or 27 cents per share, a year before.

At the close of trading on August 10, 2005, Blockbuster’s shares were trading at \$6.70 per share (down \$0.39 per share from the preceding day). On that same day, Viacom’s shares stood at \$34.70 per share (up \$0.06 from the prior day’s close).

75. Following the August 9, 2005 announcement, Blockbuster’s bank debt tumbled in the secondary market. While on August 2, 2005, the company’s \$550 million “term loan B” had been trading in the 98.563 to 99.313 context, by Thursday morning, August 11, 2005, the loan was trading in the 96 to 97 context. In addition, Fitch Ratings (“Fitch”) downgraded the

company's issuer default rating and bank debt ratings several notches to "CCC" from "B+," and Standard & Poor's lowered its ratings on Blockbuster's \$1.15 billion credit facility to "B-" from "BB-." According to Fitch, the downgrade was "a result of Blockbuster's continued operating performance weakness, significantly lower liquidity position, and need for additional waivers from its bank lenders." Fitch added that it expected Blockbuster to have difficulty generating a new \$250 million minimum cumulative EBITDA threshold for the third and fourth quarters of 2005 - a level the company did not reach in 2004 when it was bringing in revenues from late fees. Moody's Investors Service ("Moody's") also cut its ratings - already below investment grade - on Blockbuster debt. Specifically, Moody's cut Blockbuster's corporate family rating by two notches to "B3," and downgraded senior subordinated notes three levels to "Caa3."

76. In late October 2005, Blockbuster announced that it met with its lender group to discuss modifications to its credit agreement that would provide greater operating flexibility. Blockbuster also noted that it would pursue raising additional capital "that would be used for working capital purposes **including debt reduction.**" (Emphasis added). By November 2005, Blockbuster's problems had grown even more serious - "[a] competitive market and its decision to eliminate late fees hammered the nation's largest vidtailer in its most recent quarter - a period dismal enough that the company warned it may be forced to seek bankruptcy protection." It was reported that "[t]he bankruptcy warning came in a Securities and Exchange Commission filing in which the Dallas-based vidtailer disclosed it is seeking new agreements with lenders. If those agreements don't come through, the company warned it might seek bankruptcy protection."

77. At the close of trading on November 9, 2005, Blockbuster's shares stood at \$4.11 per share. Thus, in the fourteen months since Viacom had announced the commencement of the Exchange Offer, Blockbuster's shares had declined by \$3.37 per share (or just over 45%).

78. The bad news did not stop there. After months of talks with the SEC in late 2005 and early 2006, Blockbuster was forced in March 2006 to announce that it was restating its 2003 and 2004 financial statements to account for its rental library assets as current assets. While the Blockbuster board portrayed this as a simple reclassification of assets, the effect on Blockbuster's cash flow statement was devastating. Cash from operations in 2004 went from \$1.215 billion to \$417 million, and for 2003 from \$1.43 billion to \$593.7 million. For the nine months ended September 30, 2004, cash flow went from the reported \$757.8 million to \$220.9 million. The results were even more disheartening for the nine months ended September 30, 2005, where positive cash flow of \$492.4 million was transformed into a *negative* cash flow of \$146.1 million.

CLASS ACTION ALLEGATIONS

79. Plaintiff brings this action pursuant to Rule 23 of the Rules of the Delaware Court of Chancery on behalf of herself and all other persons:

a. who tendered their Viacom stock in the Exchange Offer (the "Viacom Class"). Excluded from the Viacom Class are Defendants, as well as their family members, affiliates, assigns and insurers; and

b. who held Blockbuster shares as of the record date for the Special Dividend (the "Blockbuster Class"). Excluded from the Blockbuster Class are Defendants, as well as their family members, affiliates, assigns and insurers.

80. The Viacom Class is so numerous that joinder of all members is impracticable. By October 5, 2004, approximately 27,961,165 shares of Viacom common stock were tendered in the Exchange Offer, held by individuals and entities too numerous to bring separate actions. It

is reasonable to assume that holders of the common stock are geographically dispersed throughout the United States.

81. There are questions of law and fact which are common to the Viacom Class and which predominate over questions affecting any individual class members. The common questions include, *inter alia*, the following:

- a. Whether the Viacom Director Defendants breached their fiduciary duty of disclosure by publishing a Prospectus that failed to disclose the operational difficulties faced by Blockbuster and the fact that it was crippled by the special dividend it declared in conjunction with the Exchange Offer.
- b. Whether the Viacom Director Defendants breached their fiduciary duty of loyalty by failing to disclose that they were motivated to cause Viacom to enter into the Exchange Offer so as to reduce Viacom's public float and thereby solidify NAI's and, by extension, Redstone's, control over Viacom.
- c. Whether NAI breached its fiduciary duty to Viacom shareholders by causing Viacom directors to undertake the Exchange Offer
- d. Whether Plaintiff and the Viacom Class members suffered financial loss as a result of tendering their Viacom stock in the Exchange Offer.

82. Plaintiff is committed to prosecuting this Class action on behalf of the Viacom Class and has retained competent counsel experienced in litigation of this nature. Plaintiff's claims are typical of the claims of other members of the Viacom Class. Accordingly, Plaintiff is an adequate representative of the Viacom Class and will fairly and adequately protect the interests of the Viacom Class.

83. Plaintiff anticipates that there will be no difficulty in management of this action on behalf of the Viacom Class.

84. Defendants have acted on grounds generally applicable to the Viacom Class with respect to the matters complained of herein, thereby making appropriate the relief sought herein with respect to the Viacom Class as a whole.

85. The prosecution of separate actions would create the risk of:
- a. Inconsistent or varying adjudications which would establish incompatible standards of conduct for the Defendants; and/or
 - b. Adjudications which would as a practicable matter be dispositive of the interests of the other members of the Viacom Class.

86. The Blockbuster Class is so numerous that joinder of all members is impracticable. As of June 15, 2004, Blockbuster had approximately 37,097,626 shares of Class A common stock, held by individuals and entities too numerous to bring separate actions. It is reasonable to assume that holders of the common stock are geographically dispersed throughout the United States.

87. There are questions of law and fact which are common to the Blockbuster Class and which predominate over questions affecting any individual class members. The common questions include, *inter alia*, whether the Blockbuster Director Defendants breached their fiduciary duty of loyalty to the minority shareholders of Blockbuster by declaring the Special Dividend to unfairly benefit Viacom in connection with the Exchange Offer.

88. Plaintiff is committed to prosecuting this Class action on behalf of the Blockbuster Class and has retained competent counsel experienced in litigation of this nature. Plaintiff's claims are typical of the claims of other members of the Blockbuster Class. Accordingly, Plaintiff is an adequate representative of the Blockbuster Class and will fairly and adequately protect the interests of the Blockbuster Class.

89. Plaintiff anticipates that there will be no difficulty in management of this action on behalf of the Blockbuster Class.

90. Defendants have acted on grounds generally applicable to the Blockbuster Class with respect to the matters complained of herein, thereby making appropriate the relief sought herein with respect to the Blockbuster Class as a whole.

91. The prosecution of separate actions would create the risk of:
- a. Inconsistent or varying adjudications which would establish incompatible standards of conduct for the Defendants; and/or
 - b. Adjudications which would as a practicable matter be dispositive of the interests of the other members of the Blockbuster Class.

COUNT I
(Against Viacom Director Defendants On Behalf Of The Viacom Class)
Claim for Breach of the Fiduciary Duty of Disclosure

92. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

93. Plaintiff brings this claim as a direct claim, on behalf of herself and all those similarly situated, against the Viacom Director Defendants for breach of the fiduciary duty of disclosure.

94. The entire fairness standard of review applies to this claim because Viacom's majority shareholder, NAI, and its CEO and Chairman, Sumner Redstone, were financially interested in the transaction. They received, through their substantial Viacom holdings, the overwhelming majority of the special \$5 dividend that so devastated Blockbuster's financial prospects, and they enjoyed the increase in their majority control of Viacom that resulted from the Exchange Offer.

95. On September 8, 2004, the Viacom Director Defendants caused the Prospectus to be disseminated to the investing public. As set forth above, the Prospectus was false and misleading because, among other things:

- It failed to disclose that Blockbuster was crippled by the special dividend Viacom caused it to declare such that it was without the financial resources required for it to implement its strategic plan;
- It failed to disclose that, due to outdated equipment, Blockbuster was unable to its in-store and on-line operations;
- It failed to disclose that Blockbuster was experiencing difficulties launching its in-store DVD tracking system because it lacked adequate internal controls;
- It failed to disclose that the Exchange Offer was not engineered to benefit Blockbuster, but rather to allow Viacom to reduce Viacom's public float of Viacom stock to further solidify the control of NAI and Redstone over Viacom;
- It misrepresented Blockbuster's cash flow – so vital to the funding of its growth plans – by more than 58%.
- It offered only an incomplete explanation of how the Exchange Ratio was in the Exchange Offer was derived; and
- It omitted critical information regarding the process by which Viacom's Board approved the Exchange Offer, failing to disclose who served on the committee delegated with the authority to approve the Exchange Offer.

96. The foregoing misrepresentations and omissions were material to the Viacom shareholders' consideration as to whether to tender their Viacom stock in the Exchange Offer.

97. Based on the material misrepresentations contained in and the material disclosures omitted from the Prospectus, Plaintiff and members of the Viacom Class tendered their Viacom stock in the Exchange Offer and were harmed when the truth about Blockbuster's financial position emerged and the price of Blockbuster stock declined.

COUNT II

(Against The Viacom Director Defendants On Behalf Of The Viacom Class) Claim for Breach of the Fiduciary Duties of Loyalty and Good Faith

98. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

99. The entire fairness standard of review applies to this claim because Viacom's majority shareholder, NAI, and its CEO and Chairman, Sumner Redstone, were financially interested in the transaction. They received, through their substantial Viacom holdings, the overwhelming majority of the special \$5 dividend that so devastated Blockbuster's financial prospects, and they enjoyed the increase in their majority control of Viacom that resulted from the Exchange Offer.

100. Corporate officers, directors and majority shareholders owe minority shareholders fiduciary obligations of honesty, loyalty, good faith and fairness. Notwithstanding those duties, the Viacom Director Defendants effectuated a course of conduct beginning with causing the Blockbuster board to declare the Special Dividend and culminating with the Exchange Offer that had as its primary motivations: (a) a reduction of the public float of Viacom's share to solidify NAI's and Redstone's control over Viacom; and (b) a desire by the Viacom Director Defendants to end Viacom's relationship with Blockbuster which had undisclosed operational problems that were known to the Viacom Director Defendants and Redstone.

101. By failing to advise Viacom's minority shareholders of Blockbuster's inability to meet its business plans, and permitting the Exchange Offer to proceed based on a false and misleading Prospectus, the Viacom Director Defendants elevated the interests of Viacom's majority stockholder – NAI and Redstone – over the interests of Viacom's minority shareholders who were deceived into tendering their Viacom shares in the Exchange Offer. By doing so, the Viacom Director Defendants breached their fiduciary duty of loyalty to the Viacom Class. The Viacom Director Defendants also breached their duty of good faith by designing the Exchange Offer to directly benefit NAI and Redstone at the cost of the Viacom shareholders who tendered into the Exchange Offer.

102. As a result of the Viacom Director Defendants' breaches of fiduciary duty, the Viacom Class was harmed.

COUNT III
(Against the Viacom Director Defendants On Behalf Of The Viacom Class)
Claim for Breach of Fiduciary Duty

103. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

104. Each of the Viacom Director Defendants, as directors and officers of Viacom at all times relevant to this Count, were fiduciaries of the Company's public shareholders. As such, they owed the shareholders the highest duties of good faith, fair dealing and loyalty. Each of the Viacom Director Defendants breached their fiduciary duties by acting to further the interests of NAI and Redstone over the interests of the other shareholders of Viacom.

105. The Exchange Offer was an interested transaction that is voidable pursuant to Section 144 of the Delaware General Corporation Law.

106. Each of the Viacom Director Defendants breached their fiduciary duties of loyalty and care in approving and/or acquiescing in the Exchange Offer on terms that were unfair to Viacom's minority shareholders and unfairly benefited Viacom's controlling shareholder, NAI, and Redstone.

107. As a result of the Viacom Director Defendants' breaches of fiduciary duty, Viacom's public shareholders were damaged.

COUNT IV
(Against NAI On Behalf Of The Viacom Class)
Claim for Breach of the Fiduciary Duties of Loyalty and Good Faith

108. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

109. At all relevant times, NAI was a controlling shareholder of Viacom. As such, NAI owed Viacom's minority shareholders (and, therefore, the Viacom Class) the fiduciary duties of loyalty and good faith.

110. NAI breached its fiduciary duties owed to the Viacom minority (and the Viacom Class) by causing the Viacom Director Defendants to approve and recommend to the Exchange Offer to Viacom's minority shareholders. The Exchange Offer was designed to unfairly benefit and prefer the interests of NAI and Redstone through: (a) a reduction of the public float of Viacom's shares to solidify NAI's and Redstone's control over Viacom; and (b) a desire by the Viacom Director Defendants to end Viacom's relationship with Blockbuster which had undisclosed operational problems that were known to NAI.

111. NAI also breached its fiduciary duties to the Viacom minority (and the Viacom Class) by concealing from the Viacom minority (and the Viacom Class), and failing to disclose, that the Prospectus contained false and misleading disclosures regarding the true financial conditions and prospects of Blockbuster, and specifically that the Prospectus (1) contained artificially inflated figures regarding the cash flow Blockbuster reasonably could have expected from rental libraries; (2) failed to reveal the internal cash flow analysis showing that Blockbuster could not finance its changing business plan following payment of the Special Dividend, (3) failed to disclose that Blockbuster had inadequate systems to calculate cash flow, and (4) failed to disclose the internal forecasting models showing that Blockbuster's subscription service would not be profitable.

112. Notwithstanding that NAI knew that the Prospectus contained false and misleading information, and that it failed to disclose information material to the Viacom minority (and the Viacom Class) in considering whether to tender their Viacom shares in the Exchange

Offer, NAI knowingly failed to correct these misstatements and omissions and willingly accepted the benefits of increased control over Viacom following the completion of the Exchange Offer. By knowingly failing to correct these misstatements while accepting the benefits resulting from the Viacom Directors' breach of their fiduciary duties of loyalty and disclosure, NAI breached its own fiduciary duty to the Viacom Class as a majority shareholder.

113. As a result of NAI's breaches of fiduciary duty, Viacom's minority shareholders were damaged.

COUNT V

(Against The Blockbuster Director Defendants On Behalf Of The Blockbuster Class) Claim for Breach of the Fiduciary Duties of Loyalty and Good Faith

114. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

115. The entire fairness standard of review applies to this claim because Blockbuster's majority shareholder, Viacom, was financially interested in the transaction. They received, through their substantial Blockbuster holdings, the overwhelming majority of the \$5 per share Special Dividend at a time when it was a known fact that Viacom was divesting itself of its Blockbuster holdings.

116. Corporate officers, directors and majority shareholders owe minority shareholders fiduciary obligations of honesty, loyalty, good faith and fairness. The Blockbuster Director Defendants breached those duties by causing Blockbuster to take on crippling debt in order to declare the Special Dividend. Under these circumstances, the Special Dividend unfairly benefited Viacom because it was known at the time of the declaration that Viacom was not going to remain a Blockbuster shareholder. Thus, while the Special Dividend was technically pro rata to all of Blockbuster's shareholders, Viacom's interests were not aligned with those of the

Blockbuster minority because Viacom would divest itself of its Blockbuster shares within months and would not be present to share the fate of the Blockbuster minority.

117. The Blockbuster Director Defendants elevated the interests of Blockbuster's majority stockholder – Viacom – over the interests of Blockbuster's minority shareholders. By doing so, the Blockbuster Director Defendants breached their fiduciary duty of loyalty to the Blockbuster Class.

118. As a result of the Blockbuster Director Defendants' breaches of fiduciary duty, the Blockbuster Class was harmed.

COUNT VI
(Against Viacom On Behalf Of The Blockbuster Class)
Claim for Breach of the Fiduciary Duties of Loyalty and Good Faith

119. Plaintiff hereby realleges and incorporates the allegations of the preceding paragraphs as if fully set forth herein.

120. At all relevant times, Viacom was a controlling shareholder of Blockbuster. As such, Viacom owed Blockbuster's minority shareholders (and, therefore, the Blockbuster Class) the fiduciary duties of loyalty and good faith.

121. Viacom breached its fiduciary duties owed to the Blockbuster minority (and the Blockbuster Class) by causing the Blockbuster Director Defendants to have Blockbuster incur crushing debt and to declare the \$5 per share Special Dividend. Viacom caused the Blockbuster board to do so at a time when Viacom knew that Blockbuster was already suffering undisclosed operational and financial problems and that Viacom's interests were not aligned with those of the other Blockbuster shareholders because Viacom was going to divest its Blockbuster holdings.

122. A majority of Viacom's board was either financially interested in the Special Dividend or was dominated and controlled by Viacom. Redstone was financially interested

because the payment of the Dividend increased the value of his shares in Viacom (held primarily through NAI). Antioco was Blockbuster's CEO, and therefore owed his livelihood to Viacom, which, as Blockbuster's controlling shareholders, could remove him from that position. Bressler, Dauman and Fricklas were each officers of Viacom, each therefore owing his livelihood to Viacom. Thus, five (Redstone, Antioco, Bressler, Dauman and Fricklas) of Blockbuster's eight directors (Redstone, Antioco, Bressler, Dauman, Fricklas, Clegg, Griego and Muething) at the time of the declaration of the Special Dividend were dominated and controlled by Viacom.

123. As a result of Viacom's breaches of fiduciary duty, Blockbuster's minority shareholders were damaged.

WHEREFORE, Plaintiff prays that the Court enter judgment and relief in her favor and against Defendants on all counts as follows:

- a. Declaring that the Viacom Director Defendants breached their fiduciary duty of disclosure by making false and incomplete disclosures in the Prospectus;
- b. Declaring that the Viacom Director Defendants breached their fiduciary duty of loyalty by effectuating a course of conduct beginning with the declaration of the special dividend and culminating in the Exchange Offer that had as its primary motivation the solidification of NAI's and Redstone's control over Viacom;
- c. Declaring that the Exchange Offer is void under Section 144;
- d. Declaring that the Blockbuster Director Defendants breached their fiduciary duty of loyalty by having Blockbuster take on overwhelming debt and then declaring the Special Dividend at a time when Viacom would garner a disproportionate benefit;
- e. Declaring that Viacom breached its fiduciary duty of loyalty to Blockbuster's minority shareholders by causing the Blockbuster board, which Viacom controlled and

dominated, to have Blockbuster take on overwhelming debt and then declaring the Special Dividend at a time when Viacom would garner a disproportionate benefit;

f. Certifying the Viacom and Blockbuster Classes pursuant to Rule 23 of the Rules of the Court of Chancery;

g. Awarding Plaintiff and the Classes compensatory damages, together with pre- and post-judgment interest;

h. Awarding Plaintiff the costs and expenses incurred in this action, including, but not limited to, reasonable experts' and attorneys' fees; and

i. Granting such other and further relief as may be just and proper.

Dated: January 12, 2007

/s/ Jay W. Eisenhofer

Jay W. Eisenhofer (Del. I.D. # 2864)

Michael J. Barry (Del. I.D. # 4368)

Cynthia A. Calder (Del. I.D. # 2978)

GRANT & EISENHOFER, P.A.

Chase Manhattan Centre

1201 N. Market Street

Wilmington, DE 19801

Tel: 302-622-7000

Fax: 302-622-7100

Attorneys for Plaintiff

Of Counsel:

Mark C. Gardy

GARDY & NOTIS, LLP

440 Sylvan Avenue

Suite 110

Englewood Cliffs, NJ 07632

Tel: 201-567-7377

Fax: 201-567-7337

Nadeem Faruqi

FARUQI & FARUQI, LLP

320 East 39th Street

New York, NY 10016

(212) 983-9330