

BLOCKBUSTER INC
Form S-3
June 28, 2004
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As filed with the Securities and Exchange Commission on June 28, 2004

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

BLOCKBUSTER INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

52-1655102
(I.R.S. Employer
Identification Number)

1201 Elm Street
Dallas, Texas 75270
(214) 854-3000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Edward B. Stead

Executive Vice President and General Counsel

Blockbuster Inc.

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Dallas, Texas 75270

(214) 854-3000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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(212) 848-4000

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. p

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price (1)	Amount of registration fee(2)
Class A common stock, par value \$0.01 per share	3,600,352	N/A	\$52,889,170.88	\$6,701.06

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended (the Securities Act), based on \$14.69, the average of the high and low sales prices of the class A common stock, par value \$0.01 per share, of Blockbuster Inc., a Delaware corporation, as reported by The New York Stock Exchange on June 25, 2004.
- (2) Computed in accordance with Rule 457(c) under the Securities Act to be \$6,701.06, which is equal to 0.0001267 multiplied by the proposed maximum aggregate offering price of \$52,889,170.88.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

On June 18, 2004, Blockbuster Inc. ("Blockbuster") filed a Registration Statement on Form S-4 pursuant to which Viacom Inc. ("Viacom"), Blockbuster's controlling stockholder, is offering to exchange shares of Blockbuster class A common stock and Blockbuster class B common stock, par value \$.01 per share, that Viacom and its subsidiaries own for shares of Viacom class A common stock, par value \$.01 per share, and Viacom class B common stock, par value \$.01 per share, owned by Viacom's stockholders. In addition to the shares of Blockbuster class A and class B common stock that are the subject of the exchange offer, Viacom owns 3,600,352 shares of Blockbuster class A common stock, which Viacom has purchased over time in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of the exchange offer by contributing the shares to the Viacom Pension Plan and the CBS Combined Pension Plan. Pursuant to an amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has agreed to file this Registration Statement on Form S-3 in order to facilitate the public resale from time to time of these shares by the Viacom Pension Plan and the CBS Combined Pension Plan.

If the exchange offer does not result in the exchange of all of the shares of Blockbuster common stock that Viacom owns, as soon as practicable following the completion of the exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class A and class B common stock, subject to certain limitations. In addition, Viacom has agreed to complete a spin-off under certain circumstances even if an exchange offer is not completed. For more information on the spin-off, see "The Company Recent Developments Split-Off" beginning on page 1 and "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement" beginning on page 24. Pursuant to the amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has agreed to file a Registration Statement on Form S-3 to facilitate the public resale of the Blockbuster class A and class B common stock that may be received as a result of the spin-off transaction by Mr. Sumner M. Redstone, National Amusements, Inc. or any of its affiliates or Viacom or any of its affiliates if the spin-off transaction is effected. Accordingly, concurrently with the filing of this Registration Statement, Blockbuster has filed a separate Registration Statement on Form S-3 providing for the offer and sale from time to time of any and all shares of Blockbuster class A and class B common stock that may be received as a result of the spin-off transaction by Mr. Sumner M. Redstone, National Amusements, Inc. or any of its affiliates or Viacom or any of its affiliates.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING STOCKHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 28, 2004

PRELIMINARY PROSPECTUS

[] Shares of Class A Common Stock

of

BLOCKBUSTER INC.

The selling stockholders are offering to sell from time to time, at prices to be determined at the time of sale, [] shares of Blockbuster class A common stock. Blockbuster will not receive any proceeds from the sale of the Blockbuster class A common stock by the selling stockholders.

The shares of Blockbuster class A common stock are listed on The New York Stock Exchange under the symbol BBI. On June 25, 2004, the closing sale price of Blockbuster class A common stock was \$14.68.

Investing in the shares of Blockbuster class A common stock involves risks which are described in the section entitled Risk Factors beginning on page 4 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2004.

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Blockbuster has not authorized anyone to give any information or make any representation about this offer that is different from, or in addition to, that contained in this prospectus and the registration statement of which it forms a part or in any of the materials that are incorporated by reference into this prospectus and the registration statement of which it forms a part. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by these documents are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in these documents does not extend to you. The information contained in this prospectus and the registration statement of which it forms a part (including the information incorporated by reference) speaks only as of the date of this prospectus and the registration statement of which it forms a part unless the information specifically indicates that another date applies.

As used in this prospectus and the registration statement of which it forms a part, unless the context requires otherwise, references to Viacom include Viacom Inc. and its consolidated subsidiaries other than Blockbuster and its consolidated subsidiaries, and references to Blockbuster include Blockbuster Inc. and its consolidated subsidiaries.

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DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This prospectus and the registration statement of which it forms a part and the documents incorporated by reference into these documents contain both historical and forward-looking statements. These forward-looking statements are not based on historical facts, but rather reflect Blockbuster's current expectations concerning future results and events. Forward-looking statements generally can be identified by the use of statements that include words such as believe, expect, anticipate, intend, plan, foresee, likely, will or other similar words or phrases. Statements concerning the contemplated special distribution or borrowings by Blockbuster pursuant to the new credit agreement, the exchange offer, the spin-off or agreements or arrangements relating to any of such matters or that describe Blockbuster's objectives, plans or goals are or may be forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause Blockbuster's actual results, performance or achievements to be different from any future results, performance or achievements expressed or implied by these statements. There may be additional risks, uncertainties and factors that Blockbuster does not currently view as material or that are not necessarily known. Blockbuster cannot make any assurance that projected results or events will be achieved. The risk factors set forth in the section entitled "Risk Factors" beginning on page 4 and the matters discussed in the "Disclosure Regarding Forward-Looking Information" sections of Blockbuster's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which reports are incorporated herein by reference could, among others, affect future results, causing these results to differ materially from those expressed in Blockbuster's forward-looking statements.

The forward-looking statements included and incorporated by reference in this prospectus are only made as of the date of the respective documents incorporated by reference herein or this prospectus, as applicable, and Blockbuster has no obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

See the sections entitled "Risk Factors" and "Where You Can Find More Information About Blockbuster" beginning on pages 4 and 41, respectively.

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THE COMPANY

Blockbuster is a leading global provider of in-home rental and retail movie and game entertainment, with approximately 8,900 stores in the United States, its territories and 25 other countries as of March 31, 2004. As of that date, Blockbuster operated approximately 7,100 of the stores, and its franchisees operated approximately 1,800 of the stores. In addition to operating stores under the BLOCKBUSTER® and BLOCKBUSTER VIDEO® brands, Blockbuster operates stores under other brands, such as XTRA VISION® and MR. MOVIES®. Blockbuster's specialty stores, or store-in-store concepts, use brands such as GAME RUSH®, GAMESTATION®, MOVIE TRADING CO.®, and RHINO VIDEO GAMES®. For more information, see Blockbuster's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and Blockbuster's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, which reports are incorporated by reference into this prospectus.

Recent Developments

Split-Off

On June 18, 2004, Blockbuster and Viacom, Blockbuster's controlling stockholder, jointly announced the terms of the divestiture of Viacom's interest in Blockbuster. The separation of Blockbuster from Viacom is referred to in this prospectus as the split-off. On June 18, 2004, Blockbuster filed a Registration Statement on Form S-4 pursuant to which Viacom is offering to exchange shares of Blockbuster class A common stock, par value \$.01 per share, and Blockbuster class B common stock, par value \$.01 per share, that Viacom and its subsidiaries own for shares of Viacom class A common stock, par value \$.01 per share, and Viacom class B common stock, par value \$.01 per share, owned by Viacom's stockholders. In connection with the exchange offer, Viacom has agreed to convert [] shares of Blockbuster class B common stock on a one-for-one basis into shares of Blockbuster class A common stock such that, following the completion of the exchange offer, Blockbuster will have an equity capitalization that consists of approximately 60% Blockbuster class A common stock and approximately 40% Blockbuster class B common stock. In addition, prior to the commencement of the exchange offer, Blockbuster anticipates paying a pro rata special cash distribution of \$5.00 per share (approximately \$905 million in the aggregate) to its stockholders. In connection with the special distribution, Blockbuster intends to adjust its outstanding stock options, which allow employees and directors to purchase shares of Blockbuster class A common stock, because holders of stock options will not be entitled to receive the special distribution. This adjustment is intended to preserve the value of previously granted stock options and will include a pro rata increase to the number of outstanding stock options and a pro rata decrease in the related exercise price. These adjustments would result in an increase in the number of outstanding stock options of [] million.

In addition to the shares of Blockbuster class A and class B common stock that are the subject of the exchange offer, Viacom owns 3,600,352 shares of Blockbuster class A common stock, which Viacom has purchased over time in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. Viacom intends to dispose of all of these shares prior to the completion of the exchange offer by contributing the shares to the Viacom Pension Plan and the CBS Combined Pension Plan. Pursuant to an amended and restated registration rights agreement entered into between Viacom and Blockbuster in connection with the exchange offer, Blockbuster has agreed to file this prospectus and the registration statement of which it forms a part in order to facilitate the public resale from time to time of these shares by the Viacom Pension Plan and the CBS Combined Pension Plan.

If the exchange offer does not result in the exchange of all of the shares of Blockbuster common stock that Viacom owns, as soon as practicable following the completion of the exchange offer, Viacom will distribute in a spin-off to its stockholders its remaining shares of Blockbuster class A and class B common stock, except that once Viacom has distributed more than 80% of the total voting power of Blockbuster in the aggregate in the exchange offer and any spin-off, Viacom may elect not to distribute its remaining shares in a spin-off so long as such election would not result in an increase in the number of votes per share of Blockbuster class B common stock as compared to the number of votes each share of Blockbuster class B common stock would have had if such shares had been included in any spin-off, in each case after giving effect to the

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adjustment described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Initial Public Offering and Split-Off Agreement" beginning on page 24. This distribution by Viacom of its remaining Blockbuster common stock to its stockholders is referred to in this prospectus as the "spin-off." In addition, Viacom has agreed to complete a spin-off under certain circumstances even if an exchange offer is not completed. For more information, see "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Initial Public Offering and Split-Off Agreement" beginning on page 24. Pursuant to the amended and restated registration rights agreement entered into between Viacom and Blockbuster in

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connection with the exchange offer, Blockbuster has agreed to file a registration statement on Form S-3 to facilitate the public resale of the Blockbuster class A and class B common stock that may be received as a result of the spin-off transaction by Mr. Sumner M. Redstone, National Amusements, Inc. or any of its affiliates or Viacom or any of its affiliates if the spin-off transaction is effected. Accordingly, concurrently with the filing of this prospectus and the registration statement of which it forms a part, Blockbuster has filed a separate registration statement on Form S-3 providing for the offer and sale from time to time of any and all shares of Blockbuster class A and class B common stock that may be received as a result of a spin-off transaction by Mr. Sumner M. Redstone, National Amusements, Inc. or any of its affiliates or Viacom or any of its affiliates.

Amendments to Organizational Documents

Blockbuster's board of directors has recommended that its stockholders approve certain amendments to its certificate of incorporation at its 2004 annual meeting, to be effective upon Viacom's acceptance for exchange of shares of Viacom class A and class B common stock pursuant to the exchange offer. These amendments provide, among other things, that after completion of the transactions described above under "The Company Recent Developments - Split-Off" on page 1, the number of votes per share of Blockbuster class B common stock will be reduced as described in the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions - Initial Public Offering and Split-Off Agreement" beginning on page 24. As of the date of this prospectus, Blockbuster anticipates that, following such reduction, each share of Blockbuster class B common stock will be entitled to two votes per share. In addition, the amendments remove provisions relating to Viacom as a stockholder of Blockbuster and add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. Viacom has agreed with Blockbuster that it will vote in favor of the Blockbuster charter amendments at Blockbuster's 2004 annual meeting. Because Viacom controls 95.6% of the combined voting power of Blockbuster, Viacom, acting alone, will be able to approve the Blockbuster charter amendments. Blockbuster's board of directors is also amending its bylaws to remove the provisions relating to Viacom as a stockholder of Blockbuster and to add other provisions that Blockbuster's board of directors believes are advisable for a publicly traded company without a controlling stockholder. For a more complete description of the Blockbuster charter amendments and the amendments to Blockbuster's bylaws, see the section entitled "Description of Capital Stock" beginning on page 32.

Composition of Board of Directors

Effective as of the time that Viacom owns shares representing not more than 50% of the total voting power of Blockbuster, the members of Blockbuster's board of directors who are also directors or officers of Viacom will resign from Blockbuster's board of directors. These individuals are: Sumner M. Redstone, Chairman of the Board of Directors and Chief Executive Officer of Viacom; Richard J. Bressler, Senior Executive Vice President and Chief Financial Officer of Viacom; Philippe P. Dauman, member of Viacom's board of directors; and Michael D. Fricklas, Executive Vice President, General Counsel and Secretary of Viacom. In accordance with Blockbuster's bylaws, these vacancies will be filled by a vote of the majority of the Blockbuster directors remaining in office and/or the authorized number of directors on Blockbuster's board of directors will be reduced. As of the date of this prospectus, Blockbuster's board of directors has not identified the individuals who will fill these vacancies or what changes, if any, it will make to the size of the board of directors.

New Blockbuster Credit Arrangement

Blockbuster has received a financing commitment for a new \$1.45 billion credit agreement with a syndicate of lenders to be entered into prior to the payment of the special distribution, which will be secured by pledges of the stock of certain direct and indirect subsidiaries of Blockbuster. Blockbuster's credit agreement is expected to be comprised of three facilities: (i) a seven-year \$500 million revolving credit facility (of which up to \$150 million will be reserved for a letter of credit provided by Blockbuster to support Viacom's potential liabilities for certain lease obligations of Blockbuster, which is referred to in this prospectus as the "Viacom letter of credit"); (ii) a seven-year \$200 million Term A Loan Facility; and (iii) a seven-year \$750 million Term B Loan Facility. At the initial drawing, Blockbuster expects to borrow \$950 million under the Term A and

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Term B Loan Facilities primarily for funding the special distribution. The financing commitment is subject to customary conditions, including satisfactory documentation and no material adverse change in Blockbuster. Blockbuster may also consider the

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public or private sale of debt securities in lieu of a substantial portion of the proposed Term A and Term B Loan Facilities. For more information about our new credit agreement, see Note (1) of Notes to Unaudited Pro Forma Consolidated Condensed Financial Information on page 21 and Risk Factors Risk Factors Relating to Blockbuster's Business The Terms of Blockbuster's New Credit Agreement Will Impose Many Restrictions on Blockbuster. A Failure by Blockbuster to Comply With Any of These Restrictions Could Result in an Event of Default Under the New Credit Agreement beginning on page 12.

New Employment Agreement with Chairman and CEO

In connection with the split-off and related transactions, Blockbuster entered into a new employment agreement with its chairman and chief executive officer, Mr. John F. Antioco, which provides for the issuance of restricted share units with an aggregate value of approximately \$15.4 million. Approximately 1.0 million to 2.57 million restricted share units will be issued to Mr. Antioco based on the criteria outlined in the employment agreement. The restricted share units will be granted on the fifth trading day after the date of the split-off. Half of the restricted stock units vest on the second anniversary of the date of the split-off and the other half vest on the third anniversary of the date of the split-off. The vested restricted share units are payable in cash immediately after Mr. Antioco's termination of employment or such later date as may be determined under the terms of the employment agreement at the average value of the Blockbuster class A and class B common stock on the date of termination. The terms of the new employment agreement also include an increase in Mr. Antioco's annual salary totaling \$0.4 million and \$0.1 million for the year ended December 31, 2003 and the first quarter ended March 31, 2004, respectively, based upon the minimum amounts payable as set forth in the employment agreement. The employment agreement also calls for the issuance to Mr. Antioco of approximately 4.2 million to 5.0 million stock options for Blockbuster class A common stock. One-third of the options shall be granted on the fifth trading day after the split-off, one-third on the thirtieth day after the split-off and the final third shall be awarded on the sixtieth day after the split-off. The options vest ratably in three equal installments on the first, second and third anniversaries of the split-off.

New Blockbuster Director

On June 1, 2004, Mel Karmazin resigned as a director of Blockbuster. Effective as of June 2, 2004, Michael D. Fricklas, Executive Vice President, General Counsel and Secretary of Viacom, was elected by Blockbuster's board of directors to fill the vacancy on Blockbuster's board of directors resulting from Mr. Karmazin's resignation.

Dismissal of Securities Lawsuit Against Blockbuster

In a lawsuit filed in 2003 and styled *In re Blockbuster Inc. Securities Litigation*, Blockbuster and certain directors and officers of Blockbuster were named as defendants. The consolidated amended complaint claimed violations of Section 10(b), Section 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934 for the time period between February 12, 2002 and December 17, 2002. The consolidated amended complaint generally alleged that the defendants made untrue statements of material fact and/or omitted to disclose material facts about the business and operations of Blockbuster. It also alleged that the value of Blockbuster's common stock was therefore artificially inflated and that certain of the individual defendants sold shares of Blockbuster's common stock at inflated prices. The plaintiffs sought unspecified compensatory damages. Blockbuster's motion to dismiss was granted by the federal court and the consolidated amended complaint was dismissed in its entirety, partially with prejudice and partially without prejudice, by Memorandum Opinion and Order dated April 26, 2004. In analyzing the claims asserted, the court ruled that plaintiffs' claims of nondisclosure were factually unsupported and deficient as a matter of law. To the extent the court did not dismiss plaintiffs' claims with prejudice, the court gave plaintiffs the opportunity to replead certain claims. The plaintiffs did not file any amended complaint and, on June 2, 2004, the court entered a final judgment in favor of Blockbuster and dismissed all claims with prejudice.

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Blockbuster's principal executive offices are located at 1201 Elm Street, Dallas, Texas 75270 and its phone number is (214) 854-3000. Blockbuster maintains a website at www.blockbuster.com. Information contained in or accessible through Blockbuster's website is not incorporated by reference into this prospectus and should not be considered a part hereof.

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RISK FACTORS

You should consider carefully all of the information set forth or incorporated by reference in this prospectus and, in particular, the following risk factors in considering whether to invest in Blockbuster. If any of the events described below were to occur, Blockbuster's business, prospects, financial condition, results of operations and/or cash flows could be materially adversely affected. In any such case, the price of shares of Blockbuster class A common stock could decline, and you could lose all or part of your investment in Blockbuster.

In addition, for a discussion of additional uncertainties associated with (i) Blockbuster's businesses and (ii) forward-looking statements in this prospectus, see the section entitled "Disclosure Regarding Forward-Looking Information" on page ii.

Risk Factors Relating to Blockbuster's Business

Current Studio Pricing Policies Have Resulted in Increased Competition from Mass Merchant Retailers, Which Has Affected, and Will Continue to Affect, Consumer Rental and Purchasing Behavior. Blockbuster Cannot Control or Predict with Certainty Future Studio Decisions. Future Changes in Studio Pricing or Other Practices Could Negatively Impact Blockbuster's Profitability

Studio pricing for movies released to home video retailers historically was based on whether or not a studio desired to promote a movie for both rental and sale to the consumer, or primarily for rental, from the beginning of the home video retailer distribution window. In order to promote a movie title for rental, the title would be released to home video retailers at a price that was too high to allow for an affordable sales price by the retailer to the consumer at the beginning of the home video retailer distribution window. As rental demand subsided, the studio would reduce pricing in order to then allow for reasonably priced sales to consumers. Currently, substantially all DVD titles are released at a price to the home video retailer that is low enough to allow for an affordable sales price by the retailer to the consumer from the beginning of the home video retailer distribution window. This sell-through pricing policy has led to increasing competition from other retailers, including mass merchants such as Wal-Mart, Best Buy, Circuit City and online retailers, who are able, due to the lower sell-through prices, to purchase DVDs for sale to consumers at the same time as traditional home video retailers, like Blockbuster, purchase both DVDs and VHS products for rental. In addition, some retailers sell movies at lower prices in order to increase overall traffic to their stores or businesses, and mass merchants may be more willing to sell at lower, or even below wholesale, prices because of their opportunity to move customers to higher dollar margin items, such as televisions. These factors have increased consumer interest in purchasing DVDs, which has reduced the significance of the VHS rental window.

Blockbuster believes that the increased consumer purchases are due in part to consumer interest in building DVD libraries of classic movies and personal favorites and that the studios will remain dependent on the traditional home video retailer to generate revenues for the studios from titles that are not classics or current box office hits. Blockbuster therefore believes the importance of the video rental industry to the studios will continue to be a factor in studio pricing decisions. However, Blockbuster cannot control or predict studio pricing policies with certainty, and Blockbuster cannot assure you that consumers will not, as a result of further decreases in studio sell-through pricing and/or sustained or further depressed pricing by competitors, increasingly desire to purchase rather than rent movies. Personal DVD libraries could also cause consumers to rent or purchase fewer movies in the future. Blockbuster's profitability could, therefore, be negatively affected if, in light of any such consumer behavior, Blockbuster was unable to (i) grow its rental business, (ii) replace gross profits from generally higher-margin rentals with gross profits from increased sales of generally lower-margin sell-through product, or (iii) otherwise positively affect gross profits, such as through price increases or cost reductions. Blockbuster's ability to achieve one or more of these objectives is subject to risks, including the risk that Blockbuster may not be able to compete effectively with other DVD retailers, some of whom may have competitive advantages such as the pricing flexibility described above or favorable consumer perceptions regarding value.

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In any wholesale pricing environment, the extent of Blockbuster's profitability is dependent on its ability to enter into arrangements with the studios that effectively balance cost considerations and the number of copies of a title stocked by Blockbuster. Each type of arrangement provides different advantages and challenges for Blockbuster. For example, Blockbuster has benefited from sell-through pricing of DVDs because the lower cost

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associated with DVD product has resulted in higher rental margins than product purchased under Blockbuster's historical VHS revenue-sharing arrangements.

Blockbuster's profitability could be negatively affected if studios were to make other changes in their wholesale pricing policies, which could include pricing rental windows for DVDs or expanded exploitation by studios of the international two-tiered pricing laws. In addition, Blockbuster cannot predict what use the studios might make of current or future alternative supply methods, such as downloading to stores or consumers, or what impact the use of such supply chain changes by Blockbuster or its competitors might have on Blockbuster's profitability.

Blockbuster's Video Business Could Lose a Competitive Advantage if the Movie Studios Were to Shorten or Eliminate the Home Video Retailer Distribution Window or Otherwise Adversely Change Their Current Practices With Respect to the Timing of the Release of Movies to the Various Distribution Channels

A competitive advantage that home video retailers currently enjoy over most other movie distribution channels, except theatrical release, is the early timing of the home video retailer distribution window. After the initial theatrical release of a movie, studios generally make their movies available to home video retailers (for rental and retail, including by mass merchant retailers) for specified periods of time. This distribution window is typically exclusive against most other forms of non-theatrical movie distribution, such as pay-per-view, video-on-demand, premium television, basic cable and network and syndicated television. The length of this exclusive distribution window for home video retailers varies, but has traditionally ranged from 45 to 60 days for domestic video retailers. Thereafter, movies are made sequentially available to television distribution channels.

Blockbuster's business could be negatively affected if:

the home video retailer distribution windows were no longer the first following the theatrical release;

the length of the home video retailer distribution windows were shortened; or

the home video retailer distribution windows were no longer as exclusive as they are now;

because newly released movies would be made available earlier on these other forms of non-theatrical movie distribution. As a result, consumers would no longer need to wait until after the home video retailer distribution window to view a newly released movie on these other distribution channels. According to industry statistics, more movies are now being released to pay-per-view at the shorter end of the distribution window range than at the longer end. In addition, many of the major movie studios have entered into various ventures to provide video-on-demand or similar services of their own. Increased studio participation in or support of these types of services could impact their decisions with respect to the timing and exclusivity of the home video retailer distribution window.

Blockbuster believes that the studios have a significant interest in maintaining a viable home video retail industry. However, because the order, length and exclusivity of each window for each distribution channel is determined solely by the studio releasing the movie, Blockbuster cannot predict the impact, if any, of any future decisions by the studios. In addition, any consolidation or vertical integration of media companies to include both content providers and digital distributors could pose a risk to the continuation of the distribution window.

If the Average Sales Price for Blockbuster's Previously Rented Product Is Not at or Above an Expected Price, Blockbuster's Expected Gross Margins May Be Adversely Affected

To achieve Blockbuster's expected revenues and gross margins, Blockbuster needs to sell its previously rented product at or above an expected price. If the average sales price of Blockbuster's previously rented product is not at or above this expected price, Blockbuster's revenues and gross margins may be adversely affected. At the same time, it is important that Blockbuster maximize its overall rental stream through its allocation of store space. Blockbuster may need to turn its inventory of previously rented product more quickly in the future in order to make

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room in its stores for additional DVDs or new initiatives. Therefore, Blockbuster cannot assure you that in the future it will be able to sell, on average, its previously rented product at or above the expected price.

Other factors that could affect Blockbuster's ability to sell its previously rented product at expected prices include:

consumer desire to own the particular movie or game;

the amount of previously rented product or traded product available for sale by others to the public; and

changes in the price of retail product by the studios or changes by other retailers, particularly the mass merchants mentioned above.

In addition, Blockbuster's sales of previously rented product, especially DVDs, compete with sales of newly released product that is priced for sell-through.

Blockbuster's Financial Results Could Be Adversely Affected if Blockbuster Is Unable to Manage Its Retail Inventory Effectively or if Blockbuster Is Unable to Obtain or Maintain Favorable Terms from Its Suppliers

Blockbuster's purchasing decisions are influenced by many factors, including predictions of consumer demand, gross margin considerations and supplier product return policies. While much of Blockbuster's retail movie product in the United States, but not internationally, is returnable to vendors, the increased investment in inventory necessary to capitalize on the growing retail market increases Blockbuster's exposure to excess inventories in the event anticipated sales fail to materialize. In addition, returns of Blockbuster's games inventory, which is prone to obsolescence risks because of the nature of the industry, are subject to negotiation with vendors. The prevalence of multiple game platforms may make it more difficult for Blockbuster to accurately predict consumer demand with respect to video games. The nature of and market for Blockbuster's products, particularly games and DVDs, also makes them prone to risk of theft and loss. Blockbuster's operating results could suffer if it is not able to:

obtain or maintain favorable terms from its suppliers with respect to such matters as product returns;

maintain adequate copy depth to maintain customer satisfaction;

control shrinkage resulting from theft or loss; or

avoid significant inventory excesses that could force Blockbuster to sell products at a discount or loss.

Blockbuster Is Dependent on the Introduction and Supply of New and Enhanced Game Platforms and Software to Attract and Retain Its Video Game Customers

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The home video game industry has traditionally been a hit-driven business characterized by short product lifecycles and frequent introduction of new products. Historically, the lifecycle for game platforms has been about five years, with a limited number of platforms achieving success at any given time. The industry typically grows with the introduction of new hardware platforms and games, but tends to slow prior to the introduction of new platforms, as consumers hold back their purchases in anticipation of new platform and game enhancements. Blockbuster's video games business is, therefore, dependent on the introduction of new and enhanced game platforms and software in order to attract and retain its video game customers. Delays in introduction, slower than expected hardware or software shipments or any failure to obtain sufficient product from Blockbuster's suppliers on favorable terms could negatively affect Blockbuster's business or increase fluctuations in Blockbuster's results of operations.

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Piracy of the Products Blockbuster Offers or Disregard of Release Dates May Adversely Affect Its Operations

Although piracy is illegal, it is a real and significant threat to the home video industry. The development of technology, including digital copying and file compression, and the growing penetration of high-bandwidth Internet connections and ease of networking, increase the threat of piracy by making it easier to duplicate and widely distribute pirated content. Although piracy is a concern in the United States, it is having a more significant adverse affect on the home video industry in international markets. Blockbuster cannot assure you that movie studios and others with rights in the product will take steps to enforce their rights against piracy or that they will be successful in preventing the distribution of pirated content. Increases in piracy could continue to negatively affect Blockbuster's revenues. In addition, when the studios' distribution licensees disregard the studios' release dates and release product to home video retailers other than Blockbuster before the release date, Blockbuster could be adversely affected. Blockbuster cannot assure you that the studios can or will control such distribution licensees, particularly international ones.

Blockbuster Cannot Predict the Impact that New or Improved Technologies or Video Formats, Alternative Methods of Product Delivery or Changes in Consumer Behavior Facilitated by These Technologies or Formats and Alternative Methods of Product Delivery May Have on Its Business

Advances in technologies such as video-on-demand, new video formats, downloading or alternative methods of product delivery or certain changes in consumer behavior driven by these or other technologies and methods of delivery could have a negative effect on Blockbuster's business. In particular, Blockbuster's business could be impacted if:

newly released movies were to be made widely available by the studios to these technologies or these formats at the same time or before they are made available to home video retailers for rental; and

these technologies or new formats were to be widely accepted by consumers.

The widespread availability of additional channels on satellite and digital cable systems may significantly reduce public demand for Blockbuster's products. Advances in direct broadcast satellite and cable technologies may adversely affect public demand for video store rentals. If direct broadcast satellite and digital cable were to become more widely available and accepted, this could cause a smaller number of movies to be rented if viewers were to favor the expanded number of conventional channels and expanded content, including movies, specialty programming and sporting events, offered through these services. If this were to occur, it could have a negative effect on Blockbuster's video store business. Direct broadcast satellite providers transmit numerous channels of programs by satellite transmission into subscribers' homes. In addition, cable providers are taking advantage of digital technology to transmit many additional channels of television programs over cable lines to subscribers' homes.

Because of the increased availability of channels, direct broadcast satellite and digital cable providers have been able to enhance their pay-per-view business by:

substantially increasing the number and variety of movies they can offer their subscribers on a pay-per-view basis; and

providing more frequent and convenient start times for the most popular movies.

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If these enhanced pay-per-view services were to become more widely available and accepted, pay-per-view purchases could significantly increase. Pay-per-view allows the consumer to avoid trips to the video store for rentals and returns of movies, which also eliminates the chance they will incur additional costs for keeping a movie beyond its initial rental term. However, newly released movies are currently made available by the studios for rental prior to being made available on a pay-per-view basis. Pay-per-view also does not allow the consumer to start, stop and rewind the movie or fully control start times. Increases in the size of the pay-per-view market could lead to an earlier

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distribution window for movies on pay-per-view if the studios were to perceive this to be a better way to maximize their revenues.

Blockbuster's video store business must compete with the availability of video-on demand and similar or other technologies, and alternative methods of delivery, which may significantly reduce the demand for Blockbuster's products or otherwise negatively affect Blockbuster's business. Any method for delivery of movies or games that serves as an alternative to obtaining that content in Blockbuster's stores can impact its business. Examples of delivery methods that are currently available on a limited or test basis, but that could impact Blockbuster's business, are video-on-demand, delivery by mail and online gaming. In addition, technological advances with personal video recorders and disposable DVDs could impact Blockbuster's business.

Video-on-demand. Some digital cable providers and a limited number of Internet content providers have implemented technology referred to as video-on-demand. This technology transmits movies and other entertainment content on demand with interactive capabilities such as start, stop and rewind. In addition, some cable providers have introduced subscription video-on-demand, which allows consumers to pay a flat fee per month for access to a selection of content with fast-forward, stop and rewind capabilities. In addition to being available from most major cable providers in select markets, video-on-demand has been introduced over the Internet, as high-speed Internet access has greatly increased the speed and quality of viewing content, including feature-length movies, on personal computers. Blockbuster has previously tested an entertainment-on-demand service, which delivered video-on-demand to consumers' television sets via digital subscriber lines and fiber optic connections, and Blockbuster conducts similar tests from time to time. The future of video-on-demand services, including services provided by Blockbuster, is uncertain. Video-on-demand could have a negative effect on Blockbuster's video store business if:

video-on-demand could be profitably provided at a reasonable price; and

newly released movies were made available at the same time, or before, they were made available to the home video retailers for rental.

Delivery by mail. Some companies, including Blockbuster, offer consumers the ability to purchase or rent movies and games through the Internet, with delivery by mail. This includes various online rental subscription programs, which generally do not have extended viewing fees. The convenience offered by this method of product delivery, and the attractiveness to consumers of having no extended viewing fees, could reduce the number of consumers who obtain product from Blockbuster's stores.

Disposable DVDs; personal video recorders. The technology exists for retailers to offer disposable DVDs, which would allow a consumer to view a DVD for an unlimited number of times during a specified period of time, at the end of which the DVD becomes unplayable as a result of chemistry technology. Another technology that could have an effect on Blockbuster's video store business is the personal video recorder. A personal video recorder allows consumers to automatically and digitally record programs to create a customized television line-up for viewing at any time. This technology also enables consumers to pause, rewind, instant replay and playback in slow motion any live television broadcast. This technology is also increasingly being used to download movies in a form known as Subscriber Video on Demand. Blockbuster cannot predict the impact that these technologies will have on its business.

Blockbuster Could Incur Substantial Costs Defending Itself in any Suits Brought Against Blockbuster Asserting Patent or Other Intellectual Property Rights

Netflix, Blockbuster's primary domestic competitor in online rental, recently stated that it had obtained a patent covering online rental subscription (U.S. Patent No. 6,584,450). While Blockbuster cannot predict with certainty the scope, validity and enforceability of this or any

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other patent, Blockbuster could nevertheless incur substantial costs in defending itself in any suits brought against Blockbuster asserting patent or other intellectual property rights. If the outcome of any such litigation were to be unfavorable to Blockbuster, its business and results of operations could be materially adversely affected. Blockbuster is not currently aware of any patent that it believes will materially adversely affect its ability to pursue its current and planned business operations.

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Blockbuster Has Had Limited Experience with Certain New Customer Proposition Initiatives and Cannot Assure You When or if These or Future Initiatives Will Have a Positive Impact on Blockbuster's Profitability

Blockbuster has implemented and will continue to implement initiatives that are designed to enhance efficiency and customer convenience in its stores, and Blockbuster is also continuing to test and implement initiatives such as in-store and online subscription-based rentals, games store-in-stores and trading concepts. The implementation of these and other similar initiatives in Blockbuster's stores will involve significant investments by Blockbuster of time and money. Because Blockbuster has limited experience with such new initiatives, Blockbuster cannot assure you that they will be successful or profitable either over the short or long term, including success in retaining customers. Blockbuster's ability to effectively and timely prioritize and implement its initiatives will also affect when and if they will have a positive impact on Blockbuster's profitability.

Any Failure or Inadequacy of Blockbuster's Information Technology Infrastructure Could Harm Its Business

The capacity, reliability and security of Blockbuster's information technology hardware and software infrastructure and Blockbuster's ability to expand and update this infrastructure in response to its growth and changing needs are important to the implementation of Blockbuster's new customer proposition initiatives, as well as the operation of Blockbuster's business generally. In connection with Blockbuster's growth and to avoid technology obsolescence and enable future cost savings and customer enhancements, Blockbuster is continually updating its information technology infrastructure. In addition, Blockbuster intends to add new features and functionality to its products, services and systems that could result in the need to develop, license or integrate additional technologies. Blockbuster's inability to add additional software and hardware or to upgrade its technology infrastructure could have adverse consequences, which could include the delayed implementation of Blockbuster's new customer proposition initiatives, service interruptions, impaired quality or speed of the users' experience and the diversion of development resources. Blockbuster's failure to provide new features or functionality to its systems also could result in these consequences. Blockbuster may not be able to effectively upgrade and expand its systems, or add new systems, in a timely manner or to integrate smoothly any newly developed or purchased technologies with its existing systems. These difficulties could harm or limit Blockbuster's ability to improve its business.

Newly Opened Stores May Adversely Affect the Profitability of Pre-Existing Stores

Blockbuster expects to open company-operated stores in markets where it already has significant operations in order to maximize its market share within these markets. Although Blockbuster has a store development approach that is designed to minimize the effect of newly opened stores on pre-existing stores, Blockbuster cannot assure you that these newly opened stores will not adversely affect the revenues and profitability of those pre-existing stores in any given market.

Blockbuster May Be Required to Make Lease Payments Related to Blockbuster Music Stores that Were Sold to Wherehouse Entertainment Inc., Which Is in Chapter 11 Bankruptcy

In October 1998, about 380 BLOCKBUSTER MUSIC stores were sold to Wherehouse Entertainment Inc., which is referred to in this prospectus as "Wherehouse." Some of the leases transferred in connection with this sale had previously been guaranteed either by Viacom or its affiliates. In connection with Blockbuster's initial public offering, Blockbuster entered into an Initial Public Offering and Split-Off Agreement with Viacom, pursuant to which Blockbuster agreed to indemnify Viacom with respect to any amount paid under these guarantees. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions Initial Public Offering and Split-Off Agreement" beginning on page 24. On January 21, 2003, Wherehouse filed a petition for protection under Chapter 11 of U.S. bankruptcy law. Based on information regarding lease and guarantee expirations originally available in connection with the Wherehouse bankruptcy, Blockbuster

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estimated that it was contingently liable for approximately \$36.0 million. Of this amount, Blockbuster recorded a reserve of \$18.7 million during the fourth quarter of 2002, which represented Blockbuster's estimate of the lease guarantee obligation at that time. During 2003, Blockbuster paid approximately \$8.2 million associated with the lease guarantee obligation. In addition, during the fourth quarter of 2003, based upon Blockbuster's most current information regarding the bankruptcy proceedings, Blockbuster reduced its reserve

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by \$2.6 million, resulting in a remaining reserve balance of \$7.9 million at March 31, 2004. Any payments Blockbuster is required to make under the guarantees in excess of its recorded reserve would negatively affect Blockbuster's results of operations.

Blockbuster's Business Model Is Substantially Dependent on the Functionality of Its Centralized Domestic and International Distribution Centers

Blockbuster's domestic distribution system is centralized. This means that Blockbuster ships nearly all of the products to its U.S. company-operated stores through Blockbuster's distribution center. If Blockbuster's distribution center were to become non-operational for any reason, Blockbuster could incur significantly higher costs and longer lead times associated with distributing Blockbuster's movies and other products to its stores. In international markets, there are a variety of distribution methodologies utilized with similar risks to those in the United States.

Blockbuster's Financial Results Could be Negatively Impacted by any Impairment of Goodwill or Other Intangible Assets Required by SFAS 142

In accordance with SFAS 142, Blockbuster tests goodwill and other intangible assets for impairment during the fourth quarter of each year, and on an interim date should events occur or circumstances change that would require an interim impairment test. A downward revision in the fair value of a reporting unit could result in an impairment of goodwill under SFAS 142 and a non-cash charge would be required. Such a charge could have a significant effect on Blockbuster's reported net income.

Blockbuster's Financial Results Could be Negatively Impacted by the Application of Future Accounting Policies

Blockbuster's financial results could be negatively impacted by the application of future accounting policies. For example, Blockbuster could be negatively impacted by the required adoption of new accounting pronouncements such as the Financial Accounting Standards Board Exposure Draft, *Share-Based Payment, an Amendment of FASB Statements No. 123 and 95, or pending legislation such as H.R. 3574, The Stock Option Accounting Reform Act*.

Blockbuster Is Subject to Governmental Regulation Particular to the Retail Home Video Industry and Changes in U.S. or International Laws May Adversely Affect Blockbuster

Any finding that Blockbuster has been, or is, in noncompliance with respect to the laws affecting its business could result in, among other things, governmental penalties or private litigant damages, which could have a material adverse effect on Blockbuster. Blockbuster is subject to various international and U.S. federal and state laws that govern the offer and sale of Blockbuster's franchises because Blockbuster acts as a franchisor. In addition, because Blockbuster operates video stores and develops new video stores, Blockbuster is subject to various international and U.S. federal and state laws that govern, among other things, the disclosure and retention of Blockbuster's video rental records and access and use of its video stores by disabled persons, and are subject to various state and local advertising, consumer protection, licensing, zoning, land use, construction, environmental, health and safety, minimum wage and labor and other employment regulations. The international home video and video game industry varies from country to country due to, among other things, legal standards and regulations, such as those relating to foreign ownership rights; unauthorized copying; intellectual property rights; movie ratings, which in many countries are legal standards unlike the voluntary standards of the United States; labor and employment matters; trade regulation and business practices; franchising and taxation; and

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format and technical standards. Blockbuster's obligation to comply with, and the effects of, the above governmental regulations are increased by the magnitude of Blockbuster's operations.

There is also a significant amount of U.S. state and local and international regulation governing trading activities. As Blockbuster continues to develop its movie and games trading model, Blockbuster will incur additional costs to comply with these regulations. In addition, efforts to comply with these regulations could delay Blockbuster's ability to implement its trading and games initiatives on its proposed schedule.

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Changes in existing laws, including environmental and employment laws, adoption of new laws or increases in the minimum wage, may increase Blockbuster's costs or otherwise adversely affect Blockbuster. For example, the repeal or limitation in the United States of the first sale doctrine for audiovisual works or for computer software made for limited purpose computers (or, conversely, the creation of a rental right vested in the copyright holder) would have an adverse impact in the United States on Blockbuster's rental business. In August 2002, the U.S. Copyright Office released its study on the first sale doctrine in the digital age and determined that no changes were warranted. Similarly, the adoption or expansion of laws in any other country to allow copyright owners to charge retailers more for rental product than for sell-through product could have an adverse impact on Blockbuster's rental business in that country.

Any Acquisitions Blockbuster Makes Involve a Degree of Risk

Blockbuster has in the past, and may in the future, engage in acquisitions to continue expansion of its domestic and international rental and retail presence. For example, during the past several years, Blockbuster made asset acquisitions of stores in the United States and in markets outside of the United States. In addition, during 2002, Blockbuster acquired all of the capital stock of the second largest games retailer in the United Kingdom and purchased the 51% interest that Blockbuster did not already own in its joint venture based in Italy. If these or any future acquisitions are not successfully integrated with Blockbuster's business, its ongoing operations could be adversely affected. Additionally, acquisitions may not achieve desired profitability objectives or result in any anticipated successful expansion of the acquired businesses or concepts. Although Blockbuster reviews and analyzes assets or companies it acquires, such reviews are subject to uncertainties and may not reveal all potential risks. Additionally, although Blockbuster attempts to obtain protective contractual provisions, such as representations, warranties and indemnities, in connection with acquisitions, Blockbuster cannot assure you that it can obtain such provisions in its acquisitions or that they will fully protect Blockbuster from unforeseen costs of the acquisition.

As a Result of the Payment of the Special Distribution Blockbuster's Leverage Will Increase and Blockbuster's Ability to Make Payments on its Bank Debt will Depend on Blockbuster's Future Operating Performance Which Will Depend on a Number of Factors That are Outside of Blockbuster's Control

Blockbuster will incur additional debt of \$950 million under its new credit agreement in order to pay the special distribution to its stockholders and to finance transaction costs and expenses in connection with the split-off and the special distribution. As of March 31, 2004, on a pro forma basis after giving effect to the special distribution and the borrowings under the new credit agreement, Blockbuster would have had total debt of approximately \$1,108.8 million, or approximately []% of Blockbuster's total capitalization. In addition, Blockbuster would have outstanding the \$150 million letter of credit provided by Blockbuster to support Viacom's potential liabilities for certain lease obligations of Blockbuster and other letters of credit issued in the ordinary course of business. See the section entitled "Unaudited Pro Forma Consolidated Condensed Financial Information" beginning on page 18. Blockbuster's debt service obligations with respect to this new debt will have an adverse impact on its earnings and cash flow for as long as the indebtedness is outstanding. This adverse effect on earnings and cash flow could negatively impact Blockbuster's stock price.

Blockbuster's ability to make principal and interest payments on its bank debt will depend on Blockbuster's future operating performance, which will depend on a number of factors, many of which are outside Blockbuster's control. The degree to which Blockbuster is leveraged could have other important consequences, including the following:

Blockbuster must dedicate a substantial portion of its cash flows from operations to the payment of its indebtedness, reducing the funds available for future working capital requirements, capital expenditures, acquisitions or other general corporate requirements;

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some of Blockbuster's borrowings are, and will continue to be, at variable rates of interest, which may result in higher interest expense in the event of increases in interest rates;

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Blockbuster may be more highly leveraged than some of its competitors, which could place it at a competitive disadvantage;

Blockbuster may be more vulnerable to adverse economic and industry conditions; and

Blockbuster's debt level could limit its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates.

Based 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, but there can be no assurance that Blockbuster will be able to repay such borrowings.

The Terms of Blockbuster's New Credit Agreement Will Impose Many Restrictions on Blockbuster. A Failure by Blockbuster to Comply With Any of These Restrictions Could Result in an Event of Default Under the New Credit Agreement

The terms of Blockbuster's new credit agreement will contain a number of restrictive covenants that will impose significant operating and financial restrictions on Blockbuster, including restrictions on its ability to, among other things:

repurchase or redeem capital stock or subordinated indebtedness;

pay dividends or make distributions to stockholders;

incur or guarantee additional indebtedness;

create liens;

make investments; and

merge or consolidate with other companies or transfer all or substantially all of its assets.

Blockbuster's new credit agreement will require it to maintain certain financial ratios, some of which may become more restrictive over time. As a result of these covenants and ratios, Blockbuster will be limited in the manner in which it can conduct its business, and may be unable to engage in favorable business activities or finance future operations or capital needs. Accordingly, these restrictions may limit Blockbuster's ability to successfully operate its business.

A failure to comply with the covenants or financial ratios contained in Blockbuster's new credit agreement could lead to an event of default. In the event of any default under Blockbuster's new credit agreement, the lenders thereunder will not be required to lend any additional amounts to Blockbuster and could elect to declare all outstanding borrowings, together with accrued and unpaid interest and fees, to be due and payable, and require Blockbuster to apply all of its available cash to repay these borrowings. An acceleration of indebtedness under the new credit agreement would also likely result in an event of default under the terms of any other financing arrangement Blockbuster had outstanding at such time. If

any or all of Blockbuster's debt were to be accelerated, there can be no assurance that Blockbuster's assets would be sufficient to repay such indebtedness in full.

Blockbuster's Obligations Pursuant to the Initial Public Offering and Split-Off Agreement Relating to Certain Real Estate Leases Guaranteed by Viacom May Adversely Affect Blockbuster's Ability to Negotiate Renewals or Modifications to a Subset of Such Leases

The Initial Public Offering and Split-Off Agreement between Blockbuster and Viacom, which is referred to in this prospectus as the IPO Agreement, imposes various restrictions and limitations on Blockbuster's ability to renew or modify, in a manner that increases Viacom's potential liability, a subset of the Blockbuster store leases

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guaranteed by Viacom, which could make it more difficult and expensive, and in some cases impossible, to renew or modify certain of these leases. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions" Initial Public Offering and Split-Off Agreement beginning on page 24.

Blockbuster's Obligations Pursuant to the IPO Agreement to Maintain a Letter of Credit in Favor of Viacom Will Reduce Blockbuster's Borrowing Capacity

Pursuant to the IPO agreement, Blockbuster is obligated to provide at the date of payment of the special distribution a \$150 million letter of credit for the benefit of Viacom to support Viacom's potential liability for certain real estate lease obligations of Blockbuster. The Viacom letter of credit will reduce Blockbuster's borrowing capacity under the terms of its new credit agreement by \$150 million. Until the Viacom letter of credit or any renewal thereof is terminated, Blockbuster anticipates any future or additional lenders may treat Blockbuster's letter of credit obligation as if it were outstanding indebtedness when assessing Blockbuster's borrowing capacity. Furthermore, if Blockbuster is unable to renew or otherwise replace the Viacom letter of credit prior to its expiration as required by the IPO agreement, Viacom has the right to draw down the full amount of the Viacom letter of credit, which would cause Blockbuster to borrow funds under its new credit agreement to reimburse the letter of credit bank. In either case, any resulting reduction in borrowing capacity could restrict or prevent Blockbuster from being able to borrow amounts necessary to engage in favorable business activities, consummate strategic acquisitions or otherwise fund capital needs. See the section entitled "Agreements Between Viacom and Blockbuster and Other Related Party Transactions" Initial Public Offering and Split-Off Agreement beginning on page 24.

If Blockbuster Loses Key Senior Management or is Unable to Attract and Retain the Talent Required for its Business, its Operating Results Could Suffer

Blockbuster's performance depends largely on the efforts and abilities of its members of senior management. These executives have substantial experience and expertise in Blockbuster's business and have made significant contributions to its growth and success. The unexpected loss of services of one or more of these individuals could have an adverse effect on Blockbuster's business. Blockbuster will need to attract and retain additional qualified personnel and develop, train and manage an increasing number of management-level employees. Blockbuster cannot assure you that it will be able to attract and retain personnel as needed in the future.

Risk Factors Relating to the Exchange Offer

The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. If § we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive anything owed to you under the securities.

§ The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all.

CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

The securities may be riskier than securities with a shorter term. The securities have a 15-year term, subject to our right to call the securities for mandatory redemption after the first year of the term of the securities. By purchasing securities with a longer term, you are more exposed to fluctuations in market interest rates and equity markets than if you purchased securities with a shorter term. Specifically, after the first year following issuance of the securities, you will be negatively affected if CMS30 decreases or if the closing levels of the underlying indices fall below their respective accrual barrier levels. If either (i) CMS30 decreases to a value that is less than -3.00% per annum or (ii) the closing level of either underlying index is less than its accrual barrier level on each day during an entire accrual period, you will be holding a long-dated security that does not pay any coupon.

The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, is less than the issue price. The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) the selling concessions paid in connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the

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securities. See “The estimated value of the securities would be lower if it were calculated based on our secondary market rate” below.

The estimated value of the securities was determined for us by our affiliate using proprietary pricing models.

CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of the underlying indices and CMS30, the correlation among the underlying indices and CMS30, dividend yields on the stocks that constitute the underlying indices and interest rates. CGMI’s views on these inputs may differ § from your or others’ views, and as an underwriter in this offering, CGMI’s interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

The estimated value of the securities would be lower if it were calculated based on our secondary market rate.

The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining § the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not the same as the coupon that is payable on the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market’s perception of our parent company’s creditworthiness as adjusted for discretionary factors such as CGMI’s preferences with respect to purchasing the securities prior to maturity.

§ **The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market.** Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal

amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

The value of the securities prior to maturity will fluctuate based on many unpredictable factors. The value of your securities prior to maturity will fluctuate based on the level and volatility of the underlying indices and CMS30 and a number of other factors, including the dividend yields on the stocks that constitute the underlying indices, expectations of future values of CMS30, interest rates generally, the positive or negative correlation among CMS30 and the underlying indices, the time remaining to maturity of the securities and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate. Changes in the value of CMS30 and/or the levels of the underlying indices may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment. The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

The securities are linked to the Russell 2000® Index and will be subject to risks associated with small capitalization stocks. The stocks that constitute the Russell 2000® Index are issued by companies with relatively small market capitalization. The stock prices of smaller companies may be more volatile than stock prices of large capitalization companies. These companies tend to be less well-established than large market capitalization companies. Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

Our offering of the securities is not a recommendation of CMS30 or the underlying indices. The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to CMS30 and the underlying indices is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the stocks that constitute the underlying indices or in instruments related to CMS30 or the underlying indices or such

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stocks, and may publish research or express opinions, that in each case are inconsistent with an investment linked to CMS30 and the underlying indices. These and other activities of our affiliates may affect CMS30 or the levels of the underlying indices in a way that has a negative impact on your interests as a holder of the securities.

Investing in the securities is not equivalent to investing in either underlying index or the stocks that constitute either underlying index. You will not have voting rights, rights to receive dividends or other distributions or any other rights with respect to the stocks that constitute either underlying index. You will not participate in any appreciation of either underlying index over the term of the securities.

Adjustments to either underlying index may affect the value of your securities. S&P Dow Jones Indices LLC, as publisher of the S&P 500® Index, or FTSE Russell, as publisher of the Russell 2000® Index, may add, delete or substitute the stocks that constitute the respective underlying index or make other methodological changes that could affect the level of the respective underlying index. S&P Dow Jones Indices LLC or FTSE Russell may discontinue or suspend calculation or publication of the respective underlying index at any time without regard to your interests as a holder of the securities.

Uncertainty about the future of LIBOR may affect CMS30 in a way that adversely affects the return on and the value of the securities. CMS30 is a market rate for the fixed leg of a fixed-for-floating interest rate swap with a 30-year term, where the floating leg is based on 3-month U.S. dollar LIBOR. As a result, CMS30 is significantly influenced by 3-month U.S. dollar LIBOR and expectations about future levels of 3-month U.S. dollar LIBOR. On July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported before or after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. It is also impossible to predict the impact of any LIBOR-related developments on the method of calculation or the value of CMS30. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR, including for purposes of the interest rate swaps underlying CMS30, and it is impossible to predict the effect of any such alternatives on the value of securities, such as the securities, that are linked to CMS30. Any changes to 3-month U.S. dollar LIBOR or the calculation of CMS30, and any uncertainty at what these changes may be, may affect CMS30 in a way that adversely affects your return on and value of the securities.

§ CMS30 and the levels of the underlying indices may be adversely affected by our or our affiliates’ hedging and other trading activities. We have hedged our obligations under the securities through CGMI or other of our affiliates, who have taken positions directly in the interest rate swaps that are used to determine CMS30 and/or in stocks that constitute the underlying indices and other financial instruments related to such interest rate swaps, the underlying indices or such stocks and may adjust such positions during the term of the securities. Our affiliates also trade the interest rate swaps that are used to determine CMS30 and the stocks that constitute the underlying indices and other financial instruments related to such interest rate swaps, the underlying indices or such stocks on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect CMS30 and/or the levels of the

underlying indices in a way that negatively affects the value of the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines.

We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities. Our affiliates may currently or from time to time engage in business with the issuers of the stocks that constitute the underlying indices, including extending loans to, making equity investments in or providing § advisory services to such issuers. In the course of this business, we or our affiliates may acquire non-public information about such issuers, which we will not disclose to you. Moreover, if any of our affiliates is or becomes a creditor of any such issuer, they may exercise any remedies against such issuer that are available to them without regard to your interests.

The calculation agent, which is an affiliate of ours, will make important determinations with respect to the securities. If certain events occur, Citibank, N.A., as calculation agent, will be required to make certain discretionary judgments that could significantly affect one or more payments owed to you under the securities. Such judgments § could include, among other things, determining CMS30 if it is not otherwise available on an interest determination date, selecting a successor rate if CMS30 is discontinued and, if no successor rate is selected, calculating CMS30 in good faith and using its reasonable judgment. Any of these determinations made by Citibank, N.A. in its capacity as calculation agent may adversely affect any floating interest payment owed to you under the securities.

The U.S. federal tax consequences of an investment in the securities are unclear. There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the Internal Revenue Service (the "IRS"). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as described in "United States Federal Tax Considerations" below. If the IRS were successful in asserting an alternative treatment, the tax consequences of ownership and disposition of the securities might be materially and adversely affected. Moreover, § as described in the accompanying product supplement under "United States Federal Tax Considerations," in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. While it is not clear whether the securities would be viewed as similar to the typical prepaid forward contract described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss recognized by U.S.

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investors, possibly with retroactive effect. You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “United States Federal Tax Considerations” in this pricing supplement. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Non-U.S. investors should note that persons having withholding responsibility in respect of the securities may withhold on any coupon payment paid to a non-U.S. investor, generally at a rate of 30%. To the extent that we have withholding responsibility in respect of the securities, we intend to so withhold.

In addition, Section 871(m) of the Internal Revenue Code of 1986, as amended (the “Code”), imposes a withholding tax of up to 30% on “dividend equivalents” paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of Treasury regulations, as modified by an IRS notice, that provide a general exemption for financial instruments issued in 2018 that do not have a “delta” of one, the securities should not be subject to withholding under Section 871(m). However, the IRS could challenge this conclusion.

We will not be required to pay any additional amounts with respect to amounts withheld.

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Information About CMS30

Determination of CMS30

CMS30 on any date of determination is the rate for U.S. dollar interest rate swaps with a 30-year maturity appearing on Reuters page “ICESWAP1” (or any successor page as determined by the calculation agent) as of 11:00 a.m. (New York City time) on that date of determination.

If, however, a rate for CMS30 is not published on Reuters page “ICESWAP1” (or any successor page as determined by the calculation agent) on any U.S. government securities business day on which the rate for CMS30 and CMS2 is required, then the calculation agent will request mid-market semi-annual swap rate quotations from the principal New York City office of five leading swap dealers in the New York City interbank market (the “reference banks”) at approximately 11:00 am, New York City time, on that day. For this purpose, the mid-market semi-annual swap rate means the mean of the bid and offered rates for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with a 30-year maturity, commencing on that day and in a representative amount with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an actual/360 day count basis, is equivalent to U.S. dollar LIBOR with a designated maturity of three months. If at least three quotations are provided, the rate for CMS30 for that day will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If fewer than three quotations are provided as requested, a rate for CMS30 will be determined by the calculation agent in good faith and using its reasonable judgment.

A “U.S. government securities business day” means any day that is not a Saturday, a Sunday or a day on which The Securities Industry and Financial Markets Association’s U.S. holiday schedule recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

CMS30 is calculated by ICE Benchmark Administration Limited based on tradable quotes for U.S. dollar fixed-for-floating interest rate swaps with a 30-year maturity that are sourced from electronic trading venues.

The provisions set forth in this section “—Determination of CMS30” are subject to the discussion in “—Discontinuance of CMS30” below.

Discontinuance of CMS30

If the calculation and publication of CMS30 is permanently canceled, then the calculation agent may identify an alternative rate that it determines, in its sole discretion, represents the same or a substantially similar measure or benchmark as CMS30, and the calculation agent may deem that rate (the “successor CMS rate”) to be CMS30. Upon the selection of any successor CMS rate by the calculation agent pursuant to this paragraph, references in this pricing supplement to the original CMS30 will no longer be deemed to refer to the original CMS30 and will be deemed instead to refer to that successor CMS rate for all purposes. In such event, the calculation agent will make such adjustments, if any, to any value of CMS30 that is used for purposes of the securities as it determines are appropriate in the circumstances. Upon any selection by the calculation agent of a successor CMS rate, the calculation agent will cause notice to be furnished to us and the trustee.

If the calculation and publication of CMS30 is permanently canceled and no successor CMS rate is chosen as described above, then the calculation agent will calculate the value of CMS30 on each subsequent date of determination in good faith and using its reasonable judgment. Such value, as calculated by the calculation agent, will be the relevant rate for CMS30 for all purposes.

Notwithstanding these alternative arrangements, the cancellation of CMS30 may adversely affect coupon payments on, and the value of, the securities.

Historical Information

The rate for CMS30 at 11:00 a.m. (New York time) on August 13, 2018 was 2.969%. The graph below shows the daily values of CMS30 for each day such value was available from January 2, 2008 to August 13, 2018. We obtained the values below from Bloomberg L.P., without independent verification. You should not take the historical values of CMS30 as an indication of the future values of CMS30 during the term of the securities.

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**Historical CMS30
January 2, 2008 to August 13, 2018**

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Information About the S&P 500® Index

The S&P 500® Index consists of the common stocks of 500 issuers selected to provide a performance benchmark for the large capitalization segment of the U.S. equity markets. It is calculated and maintained by S&P Dow Jones Indices LLC. The S&P 500® Index is reported by Bloomberg L.P. under the ticker symbol “SPX.”

“Standard & Poor’s,” “S&P” and “S&P 500” trademarks of Standard & Poor’s Financial Services LLC and have been licensed for use by Citigroup Inc. and its affiliates. For more information, see “Equity Index Descriptions—The S&P U.S. Indices—License Agreement” in the accompanying underlying supplement.

Please refer to the section “Equity Index Descriptions—The S&P U.S. Indices—The S&P 500” in the accompanying underlying supplement for important disclosures regarding the S&P 500® Index.

Historical Information

The closing level of the S&P 500® Index on August 13, 2018 was 2,821.93.

The graph below shows the closing level of the S&P 500® Index for each day such level was available from January 2, 2008 to August 13, 2018. We obtained the closing levels from Bloomberg L.P., without independent verification. You should not take the historical closing levels of the S&P 500® Index as an indication of future performance.

S&P 500® Index — Historical Closing Levels January 2, 2008 to August 13, 2018

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Citigroup Global Markets Holdings Inc.

Information About the Russell 2000® Index

The Russell 2000® Index is designed to track the performance of the small capitalization segment of the U.S. equity market. All stocks included in the Russell 2000® Index are traded on a major U.S. exchange. It is calculated and maintained by FTSE Russell, a subsidiary of London Stock Exchange Group. The Russell 2000® Index is reported by Bloomberg L.P. under the ticker symbol “RTY.”

“Russell 2000® Index” is a trademark of FTSE Russell and has been licensed for use by Citigroup Inc. and its affiliates. For more information, see “Equity Index Descriptions—The Russell Indices—License Agreement” in the accompanying underlying supplement.

Please refer to the section “Equity Index Descriptions—The Russell Indices—The Russell 2000® Index” in the accompanying underlying supplement for important disclosures regarding the Russell 2000® Index.

Historical Information

The closing level of the Russell 2000® Index on August 13, 2018 was 1,675.315.

The graph below shows the closing level of the Russell 2000® Index for each day such level was available from January 2, 2008 to August 13, 2018. We obtained the closing levels from Bloomberg L.P., without independent verification. You should not take the historical closing levels of the Russell 2000® Index as an indication of future performance.

Russell 2000® Index — Historical Closing Levels January 2, 2008 to August 13, 2018

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United States Federal Tax Considerations

You should read carefully the discussion under “United States Federal Tax Considerations” and “Risk Factors Relating to the Securities” in the accompanying product supplement and “Summary Risk Factors” in this pricing supplement.

Due to the lack of any controlling legal authority, there is substantial uncertainty regarding the U.S. federal tax consequences of an investment in the securities. In connection with any information reporting requirements we may have in respect of the securities under applicable law, we intend (in the absence of an administrative determination or judicial ruling to the contrary) to treat the securities for U.S. federal income tax purposes as prepaid forward contracts with associated coupon payments that will be treated as gross income to you at the time received or accrued in accordance with your regular method of tax accounting. In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are possible.

Assuming this treatment of the securities is respected and subject to the discussion in “United States Federal Tax Considerations” in the accompanying product supplement, the following U.S. federal income tax consequences should result under current law:

Any coupon payments on the securities should be taxable as ordinary income to you at the time received or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

Upon a sale or exchange of a security (including retirement at maturity), you should recognize capital gain or loss equal to the difference between the amount realized and your tax basis in the security. For this purpose, the amount realized does not include any coupon paid on retirement and may not include sale proceeds attributable to an accrued coupon, which may be treated as a coupon payment. Such gain or loss should be long-term capital gain or loss if you held the security for more than one year.

We do not plan to request a ruling from the IRS regarding the treatment of the securities, and the IRS or a court might not agree with the treatment described herein. In addition, the U.S. Treasury Department and the IRS have released a notice requesting comments on the U.S. federal income tax treatment of “prepaid forward contracts.” While it is not clear whether the securities would be viewed as similar to the typical prepaid forward contract described in the notice, it is possible that any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss, possibly with retroactive effect. You should consult your tax adviser regarding possible alternative tax treatments of the securities and potential consequences of the IRS notice.

Withholding Tax on Non-U.S. Holders. Because significant aspects of the tax treatment of the securities are uncertain, persons having withholding responsibility in respect of the securities may withhold on any coupon payment paid to Non-U.S. Holders (as defined in the accompanying product supplement), generally at a rate of 30%. To the extent that we have (or an affiliate of ours has) withholding responsibility in respect of the securities, we intend to so withhold. In order to claim an exemption from, or a reduction in, the 30% withholding, you may need to comply with certification requirements to establish that you are not a U.S. person and are eligible for such an exemption or reduction under an applicable tax treaty. You should consult your tax adviser regarding the tax treatment of the securities, including the possibility of obtaining a refund of any amounts withheld and the certification requirement described above.

Moreover, as discussed under “United States Federal Tax Considerations – Tax Consequences to Non-U.S. Holders – Possible Withholding Under Section 871(m) of the Code” in the accompanying product supplement, Section 871(m) of the Code and Treasury regulations promulgated thereunder (“Section 871(m)”) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders with respect to certain financial instruments linked to U.S. equities (“U.S. Underlying Equities”) or indices that include U.S. Underlying Equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. Underlying Equities, as determined based on tests set forth in the applicable Treasury regulations (a “Specified Security”). However, the regulations, as modified by an IRS notice, exempt financial instruments issued in 2018 that do not have a “delta” of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a “delta” of one within the meaning of the regulations with respect to any U.S. Underlying Equity and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. Underlying Equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not Specified Securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

We will not be required to pay any additional amounts with respect to amounts withheld.

You should read the section entitled “United States Federal Tax Considerations” in the accompanying product supplement. The preceding discussion, when read in combination with that section, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should also consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state,

local or non-U.S. taxing jurisdiction.

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Citigroup Global Markets Holdings Inc.

Supplemental Plan of Distribution

CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the securities, is acting as principal and will receive an underwriting fee of \$45.00 for each \$1,000 security sold in this offering (or \$15.00 per security in the case of sales to fee-based advisory accounts). The actual underwriting fee will be equal to the selling concession provided to selected dealers, as described in this paragraph. CGMI will pay selected dealers not affiliated with CGMI a selling concession of \$45.00 for each security they sell to accounts other than fee-based advisory accounts. CGMI will pay selected dealers not affiliated with CGMI a selling concession of \$15.00 for each security they sell to fee-based advisory accounts. For the avoidance of doubt, the fees and selling concessions described in this pricing supplement will not be rebated if the securities are redeemed prior to maturity.

CGMI is an affiliate of ours. Accordingly, this offering will conform with the requirements addressing conflicts of interest when distributing the securities of an affiliate set forth in Rule 5121 of the Financial Industry Regulatory Authority. Client accounts over which Citigroup Inc. or its subsidiaries have investment discretion will not be permitted to purchase the securities, either directly or indirectly, without the prior written consent of the client.

See “Plan of Distribution; Conflicts of Interest” in the accompanying product supplement and “Plan of Distribution” in each of the accompanying prospectus supplement and prospectus for additional information.

A portion of the net proceeds from the sale of the securities will be used to hedge our obligations under the securities. We have hedged our obligations under the securities through CGMI or other of our affiliates. CGMI or such other of our affiliates may profit from this hedging activity even if the value of the securities declines. This hedging activity could affect CMS30 or the closing levels of the underlying indices and, therefore, the value of and your return on the securities. For additional information on the ways in which our counterparties may hedge our obligations under the securities, see “Use of Proceeds and Hedging” in the accompanying prospectus.

Valuation of the Securities

CGMI calculated the estimated value of the securities set forth on the cover page of this pricing supplement based on proprietary pricing models. CGMI’s proprietary pricing models generated an estimated value for the securities by estimating the value of a hypothetical package of financial instruments that would replicate the payout on the securities, which consists of a fixed-income bond (the “bond component”) and one or more derivative instruments underlying the economic terms of the securities (the “derivative component”). CGMI calculated the estimated value of the bond component using a discount rate based on our internal funding rate. CGMI calculated the estimated value of the derivative component based on a proprietary derivative-pricing model, which generated a theoretical price for the

instruments that constitute the derivative component based on various inputs, including the factors described under “Summary Risk Factors—The value of the securities prior to maturity will fluctuate based on many unpredictable factors” in this pricing supplement, but not including our or Citigroup Inc.’s creditworthiness. These inputs may be market-observable or may be based on assumptions made by CGMI in its discretionary judgment.

For a period of approximately six months following issuance of the securities, the price, if any, at which CGMI would be willing to buy the securities from investors, and the value that will be indicated for the securities on any brokerage account statements prepared by CGMI or its affiliates (which value CGMI may also publish through one or more financial information vendors), will reflect a temporary upward adjustment from the price or value that would otherwise be determined. This temporary upward adjustment represents a portion of the hedging profit expected to be realized by CGMI or its affiliates over the term of the securities. The amount of this temporary upward adjustment will decline to zero on a straight-line basis over the six-month temporary adjustment period. However, CGMI is not obligated to buy the securities from investors at any time. See “Summary Risk Factors—The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity.”

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Citigroup Global Markets Holdings Inc.

Certain Selling Restrictions

Hong Kong Special Administrative Region

The contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been reviewed by any regulatory authority in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"). Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, they should obtain independent professional advice.

The securities have not been offered or sold and will not be offered or sold in Hong Kong by means of any document, other than

- (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or
- (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "Securities and Futures Ordinance") and any rules made under that Ordinance; or

in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

There is no advertisement, invitation or document relating to the securities which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits and are not covered by the Hong Kong Deposit Protection Scheme.

Singapore

This pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus have not been registered as a prospectus with the Monetary Authority of Singapore, and the securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, the securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this pricing supplement or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act. Where the securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the (a) sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the relevant securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to (i) any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Any securities referred to herein may not be registered with any regulator, regulatory body or similar organization or institution in any jurisdiction.

The securities are Specified Investment Products (as defined in the Notice on Recommendations on Investment Products and Notice on the Sale of Investment Product issued by the Monetary Authority of Singapore on 28 July 2011) that is neither listed nor quoted on a securities market or a futures market.

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Non-insured Product: These securities are not insured by any governmental agency. These securities are not bank deposits. These securities are not insured products subject to the provisions of the Deposit Insurance and Policy Owners' Protection Schemes Act 2011 of Singapore and are not eligible for deposit insurance coverage under the Deposit Insurance Scheme.

Prohibition of Sales to EEA Retail Investors

The securities may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or
 - (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Directive 2003/71/EC; and

the expression "offer" includes the communication in any form and by any means of sufficient information on the (b) terms of the offer and the securities offered so as to enable an investor to decide to purchase or subscribe the securities.

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Citigroup Global Markets Holdings Inc.

Validity of the Securities

In the opinion of Davis Polk & Wardwell LLP, as special products counsel to Citigroup Global Markets Holdings Inc., when the securities offered by this pricing supplement have been executed and issued by Citigroup Global Markets Holdings Inc. and authenticated by the trustee pursuant to the indenture, and delivered against payment therefor, such securities and the related guarantee of Citigroup Inc. will be valid and binding obligations of Citigroup Global Markets Holdings Inc. and Citigroup Inc., respectively, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York, except that such counsel expresses no opinion as to the application of state securities or Blue Sky laws to the securities.

In giving this opinion, Davis Polk & Wardwell LLP has assumed the legal conclusions expressed in the opinions set forth below of Scott L. Flood, General Counsel and Secretary of Citigroup Global Markets Holdings Inc., and Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc. In addition, this opinion is subject to the assumptions set forth in the letter of Davis Polk & Wardwell LLP dated April 7, 2017, which has been filed as an exhibit to a Current Report on Form 8-K filed by Citigroup Inc. on April 7, 2017, that the indenture has been duly authorized, executed and delivered by, and is a valid, binding and enforceable agreement of, the trustee and that none of the terms of the securities nor the issuance and delivery of the securities and the related guarantee, nor the compliance by Citigroup Global Markets Holdings Inc. and Citigroup Inc. with the terms of the securities and the related guarantee respectively, will result in a violation of any provision of any instrument or agreement then binding upon Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable, or any restriction imposed by any court or governmental body having jurisdiction over Citigroup Global Markets Holdings Inc. or Citigroup Inc., as applicable.

In the opinion of Scott L. Flood, Secretary and General Counsel of Citigroup Global Markets Holdings Inc., (i) the terms of the securities offered by this pricing supplement have been duly established under the indenture and the Board of Directors (or a duly authorized committee thereof) of Citigroup Global Markets Holdings Inc. has duly authorized the issuance and sale of such securities and such authorization has not been modified or rescinded; (ii) Citigroup Global Markets Holdings Inc. is validly existing and in good standing under the laws of the State of New York; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Global Markets Holdings Inc.; and (iv) the execution and delivery of such indenture and of the securities offered by this pricing supplement by Citigroup Global Markets Holdings Inc., and the performance by Citigroup Global Markets Holdings Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the laws of the State of New York.

Scott L. Flood, or other internal attorneys with whom he has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to his satisfaction, of such corporate records of Citigroup Global Markets Holdings Inc., certificates or documents as he has deemed appropriate as a basis for the opinions expressed above. In such examination, he or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Global Markets Holdings Inc.), the authenticity of all documents submitted to him or such persons as originals, the conformity to original documents of all documents submitted to him or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

In the opinion of Barbara Politi, Assistant General Counsel—Capital Markets of Citigroup Inc., (i) the Board of Directors (or a duly authorized committee thereof) of Citigroup Inc. has duly authorized the guarantee of such securities by Citigroup Inc. and such authorization has not been modified or rescinded; (ii) Citigroup Inc. is validly existing and in good standing under the laws of the State of Delaware; (iii) the indenture has been duly authorized, executed and delivered by Citigroup Inc.; and (iv) the execution and delivery of such indenture, and the performance by Citigroup Inc. of its obligations thereunder, are within its corporate powers and do not contravene its certificate of incorporation or bylaws or other constitutive documents. This opinion is given as of the date of this pricing supplement and is limited to the General Corporation Law of the State of Delaware.

Barbara Politi, or other internal attorneys with whom she has consulted, has examined and is familiar with originals, or copies certified or otherwise identified to her satisfaction, of such corporate records of Citigroup Inc., certificates or documents as she has deemed appropriate as a basis for the opinions expressed above. In such examination, she or such persons has assumed the legal capacity of all natural persons, the genuineness of all signatures (other than those of officers of Citigroup Inc.), the authenticity of all documents submitted to her or such persons as originals, the conformity to original documents of all documents submitted to her or such persons as certified or photostatic copies and the authenticity of the originals of such copies.

Contact

Clients may contact their local brokerage representative. Third-party distributors may contact Citi Structured Investment Sales at (212) 723-7005.

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