

ON COMMAND CORP  
Form 10-Q  
November 14, 2003

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2003

OR

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**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from                      to

Commission File Number: 00-21315

**ON COMMAND CORPORATION**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**77-0435194**

(I.R.S. Employer Identification No.)

**4610 South Ulster Street, 6<sup>th</sup> Floor**  
**Denver, Colorado**  
(Address of principal executive offices)

**80237**  
(Zip Code)

Registrant's telephone number, including area code: **(720) 873-3200**

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Indicate by check mark whether the registrant is an accelerated filer (as described in Rule 12(b)-2 of the Securities Exchange Act).

Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  Yes  No

The number of shares outstanding of the Registrant's Common Stock as of October 31, 2003 was 30,822,340 shares.

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**ON COMMAND CORPORATION**  
 (An Indirect Consolidated Subsidiary of Liberty Media Corporation)  
 Condensed Consolidated Balance Sheets  
 (unaudited)

	September 30, 2003	December 31, 2002
(amounts in thousands)		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,642	\$ 4,501
Accounts receivable, net	29,675	33,525
Other current assets	3,305	3,461
<b>Total current assets</b>	<b>34,622</b>	<b>41,487</b>
Property and equipment:		
Video systems		
In service	680,719	668,697
Construction in progress	28,924	37,511
	709,643	706,208
Support equipment, vehicles and leasehold improvements	26,774	26,245
	736,417	732,453
Accumulated depreciation	(483,159)	(457,482)
	253,258	274,971
Goodwill	65,642	65,580
Other assets, net	14,798	14,444
<b>Total assets</b>	<b>\$ 368,320</b>	<b>\$ 396,482</b>

**ON COMMAND CORPORATION**  
 (An Indirect Consolidated Subsidiary of Liberty Media Corporation)  
 Condensed Consolidated Balance Sheets (continued)  
 (unaudited)

	September 30, 2003	December 31, 2002
	(amounts in thousands)	
<b>Liabilities and Stockholders Deficit</b>		
Current liabilities:		
Accounts payable	\$ 18,807	\$ 28,689
Accounts payable to parent (note 7)	1,724	1,906
Accrued compensation	5,523	6,433
Sales, use and property tax liabilities	5,125	4,585
Other accrued liabilities	8,142	7,987
Common stock subject to repurchase obligation (notes 3 and 9)	1,876	2,333
Current portion of debt (note 6)	9,704	833
Total current liabilities	50,901	52,766
Long-term debt (note 6):		
Third party	218,890	261,946
Due to parent	40,000	
	258,890	261,946
Other long-term liabilities		
		496
Total liabilities	309,791	315,208
Minority interest in consolidated subsidiary		
		259
Mandatorily redeemable preferred stock		
	104,612	97,848
Stockholders deficit:		
Preferred stock, \$.01 par value; shares authorized 10,000,000; shares issued and outstanding 98,500 at September 30, 2003 and December 31, 2002		
Common stock, \$.01 par value; shares authorized - 150,000,000; shares issued 30,977,840 at September 30, 2003 and 30,973,989 at December 31, 2002	310	310
Additional paid-in capital	294,500	299,398
Accumulated other comprehensive loss	(1,704)	(4,533)
Accumulated deficit	(311,092)	(285,777)
	(17,986)	9,398
Common stock held in treasury, at cost (155,500 shares at September 30, 2003 and 119,500 shares at December 31, 2002)	(1,884)	(1,344)
Note receivable from stockholder (note 7)	(26,213)	(24,887)
Total stockholders deficit	(46,083)	(16,833)
Commitments and contingencies (notes 6, 8 and 9)		

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Total liabilities and stockholders' deficit	\$	368,320	\$	396,482
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See accompanying notes to condensed consolidated financial statements.

**ON COMMAND CORPORATION**  
 (An Indirect Consolidated Subsidiary of Liberty Media Corporation)  
 Condensed Consolidated Statements of Operations  
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(amounts in thousands, except per share amounts)			
<b>Net Revenue:</b>				
Net room revenue	\$ 59,462	\$ 58,009	\$ 171,687	\$ 171,393
System and equipment sales and other	1,504	2,781	5,551	7,779
	60,966	60,790	177,238	179,172
<b>Direct costs of net revenue:</b>				
Content fees, commissions and other in-room services (note 7)	31,358	28,901	90,310	85,874
System, equipment and other costs	812	1,333	2,797	3,964
Total costs of net revenue	32,170	30,234	93,107	89,838
Direct margin (exclusive of other operating expenses shown separately below)	28,796	30,556	84,131	89,334
<b>Other operating expenses:</b>				
Operations support	5,729	6,073	17,473	19,714
Research and development	1,071	1,143	3,071	3,178
Selling, general and administrative (note 7)	6,487	5,847	18,319	16,816
Depreciation and amortization	18,297	19,276	56,724	59,277
Asset impairments and other charges	1,502	751	2,758	8,401
Total other operating expenses	33,086	33,090	98,345	107,386
Loss from operations	(4,290)	(2,534)	(14,214)	(18,052)
Interest expense	(4,518)	(3,535)	(11,182)	(10,569)
Other income (expense), net	(68)	(69)	251	653
Loss before income taxes	(8,876)	(6,138)	(25,145)	(27,968)
Income tax benefit (expense)	(39)	14	(170)	(366)
Net loss	(8,915)	(6,124)	(25,315)	(28,334)
Dividends on mandatorily redeemable preferred stock	(2,158)	(2,200)	(6,764)	(6,384)
Net loss attributable to common stockholders	\$ (11,073)	\$ (8,324)	\$ (32,079)	\$ (34,718)
Basic and diluted net loss per common share (note 4)	\$ (0.36)	\$ (0.27)	\$ (1.04)	\$ (1.12)

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Basic and diluted weighted average number of common shares outstanding	30,853	30,925	30,856	30,908
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See accompanying notes to condensed consolidated financial statements.

**ON COMMAND CORPORATION**  
 (An Indirect Consolidated Subsidiary of Liberty Media Corporation)  
 Condensed Consolidated Statements of Comprehensive Loss  
 (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(amounts in thousands)			
Net loss	\$ (8,915)	\$ (6,124)	\$ (25,315)	\$ (28,334)
Foreign currency translation adjustment, net of tax	(845)	(1,453)	2,829	(78)
Reclassification adjustment for translation losses included in net loss		930		930
Comprehensive loss	\$ (9,760)	\$ (6,647)	\$ (22,486)	\$ (27,482)

See accompanying notes to condensed consolidated financial statements.



**ON COMMAND CORPORATION**  
 (An Indirect Consolidated Subsidiary of Liberty Media Corporation)  
 Condensed Consolidated Statement of Stockholders' Deficit  
 Nine Months Ended September 30, 2003  
 (unaudited)

	Preferred Stock	Common stock	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Treasury stock	Note receivable from stockholder	Total stockholders deficit
(amounts in thousands)								
Balance at December 31, 2002	\$	\$ 310	\$ 299,398	\$ (4,533)	\$ (285,777)	\$ (1,344)	\$ (24,887)	\$ (16,833)
Net loss					(25,315)			(25,315)
Other comprehensive income				2,829				2,829
Interest on stockholder note (note 7)			1,326				(1,326)	
Acquisition of Company Common Stock and related reduction of obligation to repurchase Company Common Stock (note 9)			540			(540)		