

LIBERTY MEDIA CORP /DE/

Form S-4/A

October 31, 2003

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As filed with the Securities and Exchange Commission on October 31, 2003

Registration No. 333-109791

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Amendment No. 1**

**to**

**Form S-4**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Liberty Media Corporation**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**4841**  
*(Primary Standard Industrial  
Classification Code Number)*

**84-1288730**  
*(I.R.S. Employer  
Identification No.)*

**12300 LIBERTY BOULEVARD**

**ENGLEWOOD, COLORADO 80112  
(720) 875-5400**

*(Address, including Zip Code, and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)*

**ELIZABETH M. MARKOWSKI, ESQ.**

**LIBERTY MEDIA CORPORATION  
12300 LIBERTY BOULEVARD  
ENGLEWOOD, COLORADO 80112  
(720) 875-5400**

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

*Copies to:*

**Steven D. Miller, Esq.  
Sherman & Howard L.L.C.  
633 Seventeenth Street, Suite 3000  
Denver, Colorado 80202  
(303) 297-2900**

**Jeffrey E. LaGueux, Esq.  
Patterson, Belknap, Webb & Tyler LLP  
1133 Avenue of the Americas  
New York, New York 10036-6710  
(212) 336-2000**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement and upon the effective time of the merger described in the proxy statement/ prospectus forming a part of this registration statement.

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If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended (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 this form is a post-effective amendment filed pursuant to Rule 462(d) 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.

**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 the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**ON COMMAND CORPORATION**

4610 South Ulster Street, 6<sup>th</sup> Floor  
Denver, Colorado 80237

Dear On Command Corporation Stockholder:

The On Command board of directors and a special committee of the board have unanimously approved a merger agreement pursuant to which Liberty Media Corporation would acquire all of the shares of On Command common stock that are not already beneficially owned by Liberty Media and its subsidiaries. Liberty Satellite & Technology, Inc. owns approximately 74% of On Command's outstanding common stock, while Liberty Media owns approximately 87% of Liberty Satellite's outstanding common stock.

You are cordially invited to attend a special meeting of stockholders of On Command on December 5, 2003, commencing at 9:00 a.m. local time at On Command's corporate headquarters at 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237, at which time we will ask you to consider and vote upon a proposal to adopt the merger agreement and approve the merger pursuant to which Liberty Media would acquire the remaining publicly held common stock of On Command. If the merger is completed, you will have the right to receive 0.166 of a share of Liberty Media Series A common stock in exchange for each share of On Command common stock that you own unless you validly exercise your appraisal rights. However, if the implied value of the exchange ratio in the merger is less than \$1.90 or more than \$2.10 per share of On Command common stock, based on the average closing price of the Liberty Media Series A common stock for the five trading days ending on the third trading day prior to the closing of the merger, then the exchange ratio will be adjusted upward or downward, as applicable, to yield an implied value of \$1.90 or \$2.10 per share, respectively, based on such average closing price. Any adjustment of the exchange ratio to more than 0.190 of a share of Liberty Media Series A common stock for each share of On Command common stock will be at Liberty Media's sole discretion. If Liberty Media determines not to increase the exchange ratio further, then the exchange ratio would be fixed at 0.190 and On Command would be entitled to terminate the merger agreement. Any decision of the On Command board of directors to terminate the merger agreement would be made by vote of the On Command independent directors. Prior to the consummation of the merger, On Command will issue a press release stating the final exchange ratio, if other than 0.166. A copy of the merger agreement is included as **Annex I** to this proxy statement/prospectus and should be read in its entirety.

Liberty Media's Series A common stock is listed on the New York Stock Exchange under the trading symbol **L**. On Command's common stock is eligible for quotation on the OTC Bulletin Board under the symbol **ONCO**. On October 30, 2003, the last reported sale price for Liberty Media Series A common stock was \$10.15 and the last reported bid price for On Command common stock was \$1.76.

The affirmative vote of the holders of a majority in voting power of the outstanding equity securities of On Command (which includes common stock and certain series of preferred stock, voting together with the common stock as a single class) is required to adopt the merger agreement and approve the merger. The Liberty Satellite board of directors has authorized Liberty Satellite to vote its shares of On Command common and preferred stock to adopt the merger agreement and approve the merger, in which case the merger agreement will be adopted and the merger will be approved at the special meeting.

This proxy statement/prospectus is also Liberty Media's prospectus for the shares of Liberty Media Series A common stock that would be issued to On Command stockholders in the merger. **Please carefully consider all of the information contained in this proxy statement/prospectus regarding On Command, Liberty Media and the merger, including in particular the discussion in the section entitled "Risk Factors" beginning on page 15.**

Whether or not you are personally able to attend the meeting, please complete, sign and date the enclosed proxy card and return it in the enclosed prepaid envelope as soon as possible. This action will not limit your

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right to vote in person if you wish to attend the meeting and vote personally. You may revoke your proxy in the manner described in this proxy statement/ prospectus at any time before it is voted at the special meeting.

If you have any questions about the proposed merger or the special meeting, please call On Command's Investor Relations Department at (720) 873-3640.

Sincerely yours,

Christopher Sophinos,  
President and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved the securities to be issued under this proxy statement/ prospectus or passed upon the adequacy or accuracy of this proxy statement/ prospectus. Any representation to the contrary is a criminal offense.**

This proxy statement/ prospectus is dated October 31, 2003, and is first being mailed to On Command stockholders on or about November 4, 2003.

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**ON COMMAND CORPORATION**

4610 South Ulster Street, 6<sup>th</sup> Floor  
Denver, Colorado 80237

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON DECEMBER 5, 2003**

To the Stockholders of On Command Corporation:

Notice is hereby given that a special meeting of stockholders of On Command Corporation, a Delaware corporation, will be held at On Command's corporate headquarters at 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237, on December 5, 2003, at 9:00 a.m., local time, for the following purpose:

1. To consider and vote upon a proposal to adopt a merger agreement, dated as of September 9, 2003, among On Command, Liberty Media Corporation, a Delaware corporation and ONCO Acquisition Co., a Delaware corporation, in the form of **Annex I** to the proxy statement/prospectus, and to approve the merger contemplated thereby, pursuant to which Liberty Media would acquire all of the shares of On Command common stock that are not already beneficially owned by Liberty Media and its subsidiaries, including Liberty Satellite & Technology, Inc.;

and to transact such other business as may properly come before the meeting. The On Command board of directors is not aware of any other business that may come before the meeting.

The foregoing item of business is more completely described in the proxy statement/prospectus accompanying this notice.

The On Command board of directors has fixed the close of business on October 24, 2003 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting. Only holders of record of On Command common stock, Series A preferred stock and Series D preferred stock as of the close of business on such date are entitled to notice of, and to vote at, the special meeting. A list of On Command stockholders entitled to vote at the special meeting will be available for examination by any On Command stockholder at the special meeting and, for a period of ten business days prior to the date of the special meeting, during ordinary business hours, at On Command's corporate offices at 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237.

Whether or not you are personally able to attend the meeting, please complete, sign and date the enclosed proxy card and return it in the enclosed prepaid envelope as soon as possible. This action will not limit your right to vote in person if you wish to attend the special meeting and vote personally. You may revoke your proxy in the manner described in the proxy statement/prospectus at any time before it is voted at the special meeting.

By Order of the Board of Directors,

Pamela J. Strauss,

Secretary

Denver, Colorado

October 31, 2003

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**Do not send any stock certificates with the enclosed proxy card. The procedure for the exchange of your shares after the merger is consummated is set forth in the proxy statement/ prospectus.**

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**REFERENCE TO ADDITIONAL INFORMATION**

This proxy statement/ prospectus incorporates by reference important business and financial information about Liberty Media from documents that are not included in or delivered with this proxy statement/ prospectus. You may obtain documents incorporated by reference in this proxy statement/ prospectus without charge by requesting them in writing or by telephone from Liberty Media at the following address:

Investor Relations

Liberty Media Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (877) 772-1518

**To obtain timely delivery of requested documents prior to the special stockholders meeting, you must request the incorporated information no later than *November 28, 2003, which is five business days prior to the meeting.*** For a more detailed description of the information incorporated by reference into this proxy statement/ prospectus and how you may obtain it, see the section entitled *Where You Can Find More Information,* on page 13.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER**

**Q: What is the transaction? (Page 27)**

**A:** The transaction is a merger of ONCO Acquisition Co., a newly formed subsidiary of Liberty Media, with and into On Command, with On Command as the surviving corporation in the merger. As a result of the merger, Liberty Media will acquire all of the shares of On Command common stock that are not already beneficially owned by Liberty Media and its subsidiaries. Liberty Satellite, a subsidiary of Liberty Media, owns approximately 74% of On Command's outstanding common stock, and approximately 80% of the total voting power associated with On Command's equity securities. Liberty Media owns approximately 87% of Liberty Satellite's outstanding common stock, and approximately 98% of the voting power associated with Liberty Satellite's equity securities.

Unless the context clearly indicates otherwise, all references in this proxy statement/ prospectus to the merger refer to the merger of ONCO Acquisition Co. with and into On Command, and all references to the merger agreement refer to the merger agreement among On Command, ONCO Acquisition Co. and Liberty Media, which accompanies this proxy statement/ prospectus as **Annex I**.

**Q: What will I receive in the merger? (Page 48)**

**A:** Following the consummation of the merger, unless you validly exercise your appraisal rights, you will have the right to receive 0.166 of a share of Liberty Media Series A common stock in exchange for each share of On Command common stock that you hold on the effective date of the merger. Liberty Media will not issue fractional shares of Liberty Media Series A common stock in the merger. You will receive cash based on the market price of the Liberty Media Series A common stock instead of any fractional shares.

**Q: Will the exchange ratio and the value of the shares I receive change between now and the time the merger is consummated? (Page 49)**

**A:** The exchange ratio (which affects the number of shares you will receive) is subject to adjustment as follows. If the implied value of the exchange ratio in the merger is less than \$1.90 or more than \$2.10 per share of On Command common stock, based on the average closing price of the Liberty Media Series A common stock for the five trading days ending on the third trading day prior to the closing of the merger, then the exchange ratio will be adjusted upward or downward, as applicable, to yield an implied value of \$1.90 or \$2.10 per share, respectively, based on such average closing price. However, if the average closing price of Liberty Media Series A common stock over such period is less than \$10.00 per share, the exchange ratio will be capped at 0.190, subject to (i) the right of On Command to terminate the merger agreement and abandon the merger, if the exchange ratio is so capped, and (ii) the right of Liberty Media to increase the exchange ratio above 0.190, to yield an implied value of \$1.90 per share of On Command common stock, in which case the merger agreement will not be terminated and the merger will be consummated at such increased exchange ratio. Any decision of the On Command board of directors to terminate the merger agreement as described above would be made by vote of the On Command independent directors. If the average closing price of Liberty Media Series A common stock over the relevant period is less than \$10.00 per share and On Command does not elect to terminate the merger agreement, or if the price of Liberty Media Series A common stock on the closing date of the merger is less than the average price used to calculate any adjustment to the exchange ratio under the merger agreement, then on the closing date the Liberty Media Series A common stock you receive in the merger could be worth less than \$1.90 per share of On Command common stock converted in the merger.

On October 30, 2003, the last trading day before the date of this proxy statement/ prospectus, the last sale price of Liberty Media Series A common stock on the New York Stock Exchange was \$10.15 per share.

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**Q: Will I have appraisal rights in connection with the merger? (Page 55)**

**A:** Yes. Under Delaware law, which governs the merger, you have the right to seek appraisal of your shares of On Command common stock. Your right to seek appraisal requires strict compliance with the procedures contained in Section 262 of the Delaware corporate statute. Failure to follow any of these procedures may result in the termination or waiver of your appraisal right.

**Q: Does the On Command board of directors recommend approval of the merger? (Page 36)**

**A:** Yes. The On Command board of directors, based in part on the recommendation of a special committee of the board, unanimously recommends that you vote in favor of adoption of the merger agreement and approval of the merger. The special committee of the board is composed of two directors, neither of whom is an officer or employee of Liberty Media or any of its affiliates, or a director of Liberty Media. The special committee was formed in order to negotiate the terms of a possible business combination with Liberty Media on behalf of On Command.

**Q: What is the date, time and place of the special meeting of stockholders to consider the merger? (Page 24)**

**A:** The special meeting of stockholders of On Command will be held on December 5, 2003 at 9:00 a.m., local time, at On Command's corporate headquarters at 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237, to consider and vote upon the proposal to adopt the merger agreement and approve the merger.

**Q: What vote is required to adopt the merger agreement and approve the merger? (Page 25)**

**A:** In order to adopt the merger agreement and complete the merger, holders of a majority in voting power of the outstanding equity securities of On Command (which includes common stock and certain series of preferred stock, voting together with the common stock as a single class) must approve the merger agreement and the merger. Liberty Satellite, a subsidiary of Liberty Media, owns approximately 74% of the outstanding On Command common stock, and approximately 80% of the total voting power associated with On Command's equity securities. The Liberty Satellite board of directors has authorized Liberty Satellite to vote its shares of On Command common and preferred stock to adopt the merger agreement and approve the merger, in which case the merger agreement will be adopted and the merger will be approved at the special meeting.

**Q: Will I realize a taxable gain or loss for U.S. Federal Income Tax purposes? (Page 45)**

**A:** Yes. The merger will be a taxable transaction to you. You will be treated as having sold or exchanged your shares of On Command common stock for Liberty Media Series A common stock and you will recognize gain or loss equal to the difference between (i) the tax basis for your shares of On Command common stock and (ii) the fair market value of the Liberty Media Series A common stock and any cash in lieu of fractional shares that you receive.

**Q: What do I need to do now? (Page 24)**

**A:** After carefully reading and considering the information contained in this proxy statement/ prospectus and its appendices, indicate your vote on your proxy card, and sign and mail the proxy card in the enclosed return envelope as soon as possible, so that your shares may be represented at the special meeting. If you sign and send in your proxy card and do not indicate your vote, we will count your proxy card as a vote in favor of the proposal to be voted upon at the special meeting. If you desire to exercise your appraisal rights, you should follow the procedures described in the section entitled, Appraisal Rights of Dissenting Stockholders.



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**Q: May I vote in person? (Page 24)**

**A:** Yes. If you hold your shares of record as of the close of business on October 24, 2003, you may attend the special meeting of On Command stockholders and vote your shares in person rather than signing and returning your proxy card.

**Q: What do I do if I want to change my vote? (Page 24)**

**A:** You should send in a new, later dated, signed proxy card, or a written revocation of your previous proxy card, to On Command's corporate secretary so that it is received before the special meeting or attend the special meeting in person and vote (however, attendance at the special meeting without voting at the meeting will not in and of itself constitute a revocation of a proxy).

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me? (Page 26)**

**A:** Yes, but only if you provide instructions to your broker on how to vote. Accordingly, please contact the person responsible for your account and give instructions for a proxy card to be signed representing your shares of On Command common stock.

**Q: Should I send my stock certificates now? (Pages 25 and 51)**

**A:** No. As soon as practicable after the merger is completed, On Command stockholders will be sent written instructions for exchanging their share certificates, together with a letter of transmittal for the certificates. **You should not send any stock certificates with your proxy cards.**

**Q: Will I have to pay any fees or commissions? (Page 26)**

**A:** If you are the record owner of your shares, you will not have to pay brokerage fees or incur similar expenses. If you own your shares through a broker or other nominee, your broker may charge you a fee. You should consult your broker or nominee to determine whether any charges will apply.

**Q: Whom should I call with questions? (Page 13)**

**A:** You should call On Command's Investor Relations Department at (720) 873-3640. You may also obtain additional information about Liberty Media from documents filed with the Securities and Exchange Commission by following the instructions in the section entitled Where You Can Find More Information, on page 13.

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**SUMMARY OF THIS PROXY STATEMENT/ PROSPECTUS**

This summary highlights selected information from this proxy statement/ prospectus and may not contain all the information that is important to you. To better understand the merger, you should read this entire document carefully, including the documents to which we refer you. In addition, this proxy statement/ prospectus incorporates by reference important business and financial information about Liberty Media. You may obtain the information incorporated by reference into this proxy statement/ prospectus without charge by following the instructions in the section entitled *Where You Can Find More Information*, on page 13.

**The Companies (See Page 22)**

***On Command Corporation***

4610 South Ulster Street, 6th Floor  
Denver, Colorado 80237  
Telephone: (720) 873-3200

On Command provides in-room, on-demand entertainment and information services to hotels, motels and resorts. At June 30, 2003, On Command provided in-room entertainment services to approximately 885,000 hotel rooms. Approximately 89% of On Command's total equipped rooms at June 30, 2003 were located in the United States, with the balance located primarily in Canada and Mexico. The majority of On Command's domestic operations are conducted through its primary subsidiary, On Command Video Corporation.

***Liberty Media Corporation***

12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (720) 875-5400

Liberty Media is a holding company which, through its ownership of interests in subsidiaries and other entities, is engaged in (i) the production, acquisition and distribution through all available formats and media of branded entertainment, educational and informational programming and software, including multimedia products, (ii) electronic retailing, direct marketing, advertising sales related to programming services, infomercials and transaction processing, (iii) international cable television distribution, telephony and programming, (iv) satellite communications, and (v) investments in wireless domestic telephony and other technology ventures. Liberty Media and its affiliated companies operate in the United States, Europe, South America and Asia with some of the world's most recognized and respected brands, including QVC, Encore, STARZ!, Discovery, IAC/InterActiveCorp, Court TV and Sprint PCS.

**The Special Meeting (Page 24)**

*General.* The special meeting of stockholders of On Command will be held at 9:00 a.m., local time, on December 5, 2003, at On Command's corporate headquarters at 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237.

*Record Date.* Stockholders are entitled to vote at the special meeting if they owned shares of On Command common stock, Series A preferred stock or Series D preferred stock as of the close of business on October 24, 2003, the record date. As of the record date, there were 30,822,340 shares of On Command common stock outstanding, 13,500 shares of On Command Series A preferred stock outstanding and 60,000 shares of On Command Series D preferred stock outstanding.

*Voting Rights and Procedures.* On Command common stockholders will be entitled to one vote for each share of common stock owned on the record date. In addition, On Command Series A and D preferred stockholders are entitled to vote together with On Command stockholders on all matters submitted to the On Command common stockholders, with holders of the Series A and D preferred stock to have the number of votes that they would have if all of the Series A or D preferred stock had been converted into On Command common stock. On the record date, the Series A preferred stock was convertible into 1,350,000 shares of On Command common stock and the Series D preferred stock was convertible into 9,404,023 shares of On



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Command common stock. You may vote either by attending the special meeting and voting your shares or by completing the enclosed proxy card and mailing it to us in the enclosed envelope.

*Stockholder Vote Required to Approve the Merger.* The affirmative vote of the holders of a majority of the voting power of outstanding shares of On Command common stock, Series A preferred stock and Series D preferred stock (voting together as a single class) entitled to vote at the meeting is required to approve the merger agreement and the merger. As of the record date, Liberty Satellite, a subsidiary of Liberty Media, owned approximately 74% of the outstanding On Command common stock, and 100% of the outstanding On Command Series D preferred stock, which collectively represents approximately 80% of the total voting power of equity securities entitled to vote at the special meeting. This means that Liberty Satellite owns enough shares of On Command common stock to adopt the merger agreement and approve the merger under the Delaware corporate statute without the vote of any other holders of On Command common stock. The Liberty Satellite board of directors has authorized Liberty Satellite to vote its shares of On Command common and preferred stock to adopt the merger agreement and approve the merger, in which case the merger agreement will be adopted and the merger will be approved at the special meeting. Liberty Satellite is not subject to any binding agreement to vote in favor of the merger proposal, and there can be no assurance that the board of directors of Liberty Satellite will not revoke such authorization prior to the special meeting. However, in the merger agreement, in its capacity as beneficial owner of On Command stock, Liberty Media agreed to use commercially reasonable efforts to cause On Command stock beneficially owned by Liberty Media (which would include the shares owned by Liberty Satellite) to be voted in favor of the adoption of the merger agreement at the special meeting.

*Stock Ownership of Officers and Directors.* As of the record date, the directors and executive officers of On Command owned 3,200 shares of On Command common stock, and held exercisable options or other rights to acquire 430,000 shares of On Command common stock, collectively representing 1.4% of the total number of shares of On Command common stock outstanding at that date (assuming exercise of such options).

## **The Merger (Page 27)**

*General.* The merger agreement is attached as **Annex I** to this proxy statement/ prospectus and is incorporated herein by reference. We encourage you to read the merger agreement as it is the legal document that governs the merger. The merger agreement provides that, upon consummation of the merger, ONCO Acquisition Co. will merge with and into On Command, with On Command continuing as the surviving corporation.

The merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware. This filing is anticipated to be made as soon as possible after receipt of On Command stockholder approval and the satisfaction or waiver of the other conditions to the merger.

*What On Command Stockholders Will Receive.* Upon consummation of the merger, each holder of outstanding On Command common stock (other than ONCO Acquisition Co., Liberty Satellite, Liberty Media and their respective wholly-owned subsidiaries) who has not properly exercised appraisal rights will receive 0.166 of a share of Series A common stock of Liberty Media in exchange for each share of On Command common stock that they own, subject to the following adjustments. If the implied value of the exchange ratio in the merger is less than \$1.90 or more than \$2.10 per share of On Command common stock, based on the average closing price of the Liberty Media Series A common stock for the five trading days ending on the third trading day prior to the closing of the merger, then the exchange ratio will be adjusted upward or downward, as applicable, to yield an implied value of \$1.90 or \$2.10 per share, respectively, based on such average closing price. However, if the average closing price of Liberty Media Series A common stock over such period is less than \$10.00 per share, the exchange ratio will be capped at 0.190, subject to (i) the right of On Command to terminate the merger agreement and abandon the merger, if the exchange ratio is so capped, and (ii) the right of Liberty Media to increase the exchange ratio above 0.190, to yield an implied value of \$1.90 per share of On Command common stock, in which case the merger agreement will not be terminated and the merger will be consummated at such increased exchange ratio. Any decision of the On

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Command board of directors to terminate the merger agreement as described above would be made by vote of the On Command independent directors. If the average closing price of Liberty Media Series A common stock over the relevant period is less than \$10.00 per share and On Command does not elect to terminate the merger agreement, or if the price of Liberty Media Series A common stock on the closing date of the merger is less than the average price used to calculate any adjustment to the exchange ratio under the merger agreement, then on the closing date the Liberty Media Series A common stock you receive in the merger could be worth less than \$1.90 per share of On Command common stock converted in the merger. For a table showing the calculation of the exchange ratio and the implied value of such fraction of a share of Liberty Media Series A common stock based upon a range of average closing prices of a Liberty Media Series A common share over a five trading day period, please see the section entitled "The Merger Agreement - Consideration to be Received in the Merger" on page 48.

If the exchange ratio remains at 0.166, a total of approximately 2,035,220 shares of Liberty Media Series A common stock will be issued or issuable in connection with the merger in exchange for outstanding shares of On Command common stock and upon exercise of options, vesting of restricted stock awards and conversion of On Command Series A preferred stock outstanding at the time of the merger.

Liberty Media will not issue fractional shares of its Series A common stock in the merger. Instead, the total number of shares of Liberty Media Series A common stock you are entitled to receive will be rounded down to the nearest whole number of shares, and you will receive a cash payment for any fraction of a share to which you would otherwise be entitled based upon the average closing price of Liberty Media Series A common stock for the five trading days immediately preceding the trading day prior to the closing of the merger.

*On Command Reasons for the Merger; Recommendation of On Command Board of Directors.* The On Command board of directors has unanimously approved the merger agreement and has determined that it is advisable and in the best interests of On Command and its stockholders (other than Liberty Media and its affiliates), and unanimously recommends that holders of On Command common stock vote in favor of the proposal to adopt the merger agreement and approve the merger. In making this recommendation, the board considered the following factors:

the recommendation of a special committee of the board comprised entirely of independent directors;

the financial condition, competitive position and prospects of On Command as a stand-alone entity;

the opinion of Credit Suisse First Boston LLC dated September 9, 2003, subject to and based upon the assumptions and considerations in its opinion, as to the fairness, from a financial point of view, to the holders of common stock of On Command (other than Liberty Media and its affiliates) of the consideration to be received by such holders pursuant to the merger agreement as of the date of such opinion;

the expected difficulties On Command would encounter in pursuing its growth strategy as a stand-alone company given its leverage, its capital needs and its limited access to capital;

the relative liquidity of the Liberty Media Series A common stock as compared to the On Command common stock;

the opportunity for On Command stockholders to participate in the future performance of the other businesses and assets of Liberty Media through their ownership of Liberty Media Series A common stock, which they would receive in the merger; and

the expectation that the merger will generally be a taxable transaction to On Command common stockholders.

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*Liberty Media Reasons for the Merger.* The purpose of the merger for Liberty Media is to acquire the publicly held minority interest in On Command. In deciding to undertake the merger, which will result in On Command ceasing to be a public company, Liberty Media considered the following factors, among others:

On Command's outstanding debt, including On Command's greater cost of borrowing as compared to Liberty Media's, and On Command's historical difficulties in satisfying the leverage ratio contained in its debt agreements (as further described in the section entitled "The Merger - Background of the Merger," on page 27);

recent capital market trends, which have adversely affected the ability of companies situated similarly to On Command to access capital;

On Command's need for additional capital to develop its business;

the trading price volatility of the On Command common stock caused, in part, by its limited public float;

the elimination of costs associated with operating On Command as a separate public company, including costs and expenses associated with Securities and Exchange Commission reporting, communicating with stockholders and related legal and accounting fees; and

the ability to eliminate certain potential conflicts of interest between On Command and Liberty Media relating to business dealings between them.

*Regulatory Approval and Other Conditions to the Merger.* Except for filing a certificate of merger in Delaware and compliance with federal and state securities laws, we are not aware of any material United States federal or state or foreign governmental or regulatory requirement necessary to be complied with, or approval that must be obtained, in connection with the merger. However, the respective obligations of On Command and Liberty Media to consummate the transactions contemplated by the merger agreement are subject to the satisfaction or, where permissible, waiver of a number of conditions, including the adoption of the merger agreement and approval of the merger by the requisite vote of stockholders of On Command, and certain other conditions that are usual and customary conditions for merger transactions.

*Covenants.* Under the merger agreement, On Command has agreed, prior to the effective time of the merger, to conduct its business in the ordinary and usual course consistent with past practice, to use its reasonable efforts to preserve intact its business organization and assets and to refrain from issuing additional capital stock, amending its certificate of incorporation, entering into or modifying certain material agreements or taking certain other actions.

*Effect of the Merger on On Command Stock Options and Restricted Stock.* On Command's outstanding stock options issued under the Amended and Restated On Command 1996 Key Employee Stock Option Plan and the Amended and Restated On Command 1997 Non-Employee Directors Stock Plan, as amended, and other stock options not issued under that plan, will each be converted into rights to acquire Liberty Media Series A common stock. Converted stock options will be exercisable with respect to the number of shares of Liberty Media Series A common stock determined by multiplying the number of underlying shares of On Command common stock on the effective date of the merger by the exchange ratio in the merger, rounded up to the nearest whole share. The exercise price per share of Liberty Media Series A common stock issuable under each assumed option will be calculated by dividing the exercise price of the option before the merger by the exchange ratio, rounded down to the nearest whole cent.

In addition, each restricted share of On Command common stock issued under or outside of the On Command plans will be converted into restricted shares of Liberty Media Series A common stock at the exchange ratio, rounded up to the nearest whole share. Each restricted share of Liberty Media Series A common stock issued to holders of On Command restricted stock will remain subject to the same restrictions applicable to such share prior to the merger.

*Effect of the Merger on On Command Preferred Stock.* All shares of On Command Series A, B, C and D preferred stock that are issued and outstanding immediately prior to the merger will remain outstanding

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after the merger. The terms of On Command's Series A preferred stock provide that, after the merger, each share of Series A preferred stock will no longer be convertible into 100 shares of On Command common stock, but instead will be convertible into the number of shares of Liberty Media Series A common stock equal to 100 multiplied by the exchange ratio. After the merger, each share of On Command Series D preferred stock will continue to be convertible into On Command common stock. All outstanding shares of Series A preferred stock are currently held by the former Chairman of the Board and Chief Executive Officer of On Command, Jerome H. Kern, who is also a director of Liberty Media. All outstanding shares of Series B, C and D stock are currently held by Ascent Entertainment Group, Inc., a wholly owned subsidiary of Liberty Satellite.

*Termination.* The merger agreement may be terminated and the merger abandoned at any time prior to the effective time of the merger, by the mutual consent of On Command and Liberty Media. In addition, either On Command or Liberty Media can terminate the merger agreement:

if the On Command board of directors has withdrawn or modified in any manner adverse to Liberty Media its recommendation to On Command stockholders regarding the adoption of the merger agreement;

if the merger has not been consummated before March 31, 2004;

for a material breach by the other party under the merger agreement that is incapable of being cured;

if a court of competent jurisdiction has issued an order permanently enjoining or otherwise prohibiting the merger; or

if the required adoption of the merger agreement and approval of the merger by the On Command stockholders are not duly obtained at the special meeting.

The merger agreement can also be terminated by On Command (upon a determination of its independent directors) if the implied value of the exchange ratio, as adjusted pursuant to the terms of the merger agreement, is less than \$1.90 per share, based on the average closing price of Liberty Media Series A common stock for the five trading days ending on the third trading day prior to the closing of the merger, unless Liberty Media elects to increase the exchange ratio to yield an implied value per share of On Command common stock of \$1.90.

## **Interests of Directors and Officers (Page 44)**

You should be aware that some officers and directors of On Command have interests in the merger that are different from, or in addition to, yours. These interests include:

ownership of Liberty Media common stock and options exercisable for shares of Liberty Media common stock; and

indemnification arrangements between On Command and the directors and officers of On Command.

In addition, some of the officers and directors of Liberty Media and/or ONCO Acquisition Co. are also directors of On Command and have interests that are in addition to, or different from, your interests.

## **Material U.S. Federal Income Tax Consequences (Page 45)**

The merger will be treated for tax purposes as a taxable sale or exchange of On Command common stock for Liberty Media Series A common stock. In general, you will have taxable gain or loss equal to the difference between your aggregate basis in the On Command common shares surrendered by you in the merger and the sum of the fair market value of the Liberty Media Series A common stock and any cash in lieu of fractional shares that you receive in the merger. The gain or loss will be capital if you held your shares of On Command common stock as capital assets and would be long term gain or loss if you held your shares of On Command common stock for more than a year as of the date of the merger. You should consult your own tax advisor for a full understanding of the merger's tax consequences to you.

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### **Appraisal Rights of Dissenting Stockholders (Page 55)**

Delaware law permits holders of On Command common and preferred stock to dissent from the merger and to receive the appraised fair value of their shares of On Command common or preferred stock in cash in lieu of merger consideration. To do this, a holder of On Command common or preferred stock must follow certain procedures, including filing certain notices with On Command and refraining from voting his or her shares in favor of the merger. If an On Command stockholder validly exercises his or her appraisal rights, his or her shares of On Command common and preferred stock will not be exchanged for shares of Liberty Media Series A common stock in the merger, and his or her only right will be to receive the appraised fair value of his or her shares of On Command common stock in cash, which amount could be greater than, less than or the same as the value of the merger consideration he or she would have received at the closing of the merger. A copy of the Delaware statutes describing these appraisal rights and the procedures for exercising them is attached as **Annex II** to this proxy statement/ prospectus.

The Liberty Satellite board of directors has authorized Liberty Satellite to waive any dissenters' rights of appraisal that it has with respect to the On Command common stock and Series B, C and D preferred stock that it beneficially owns. Liberty Satellite is not subject to any binding agreement to waive its dissenters' rights of appraisal, and there can be no assurance that the board of directors of Liberty Satellite will not revoke such authorization prior to the special meeting.

### **Accounting Treatment (Page 45)**

For accounting and financial reporting purposes, the merger will be accounted for as a purchase of a minority interest, as this term is used under accounting principles generally accepted in the United States of America.

### **Certain Restrictions on Resale of Liberty Media Series A Common Stock (Page 55)**

All shares of Liberty Media Series A common stock received by you in connection with the merger will be freely transferable unless you are considered an affiliate of On Command under the Securities Act of 1933 at the time of the merger or you are an affiliate of Liberty Media. If you are an affiliate of On Command, then you may transfer your shares only pursuant to an effective registration statement or an exemption under the Securities Act. This restriction will generally lapse at the end of one year unless you are an affiliate of Liberty Media.

### **Differences Between Your Rights as an On Command Stockholder and as a Liberty Media Stockholder (Page 58)**

There are differences between the rights you have as a holder of On Command common stock and the rights you will have as a holder of Liberty Media Series A common stock.

### **Exchange of Stock Certificates (Page 51)**

Promptly after the merger is completed, you will receive a letter and instructions on how to surrender your On Command stock certificates in exchange for Liberty Media stock certificates. You will need to carefully review and complete these materials and return them as instructed along with your stock certificates for On Command common stock. Please do not send On Command, Liberty Media or their transfer agents any stock certificates until you receive these instructions. **If you hold On Command common stock and you elect to exercise your appraisal rights, you should follow the procedures outlined in the Appraisal Rights of Dissenting Stockholders section on page 55.**

### **Listing of Liberty Media Series A Common Stock**

Liberty Media has agreed to list the shares of Liberty Media Series A common stock to be issued in connection with the merger on the New York Stock Exchange.



**Table of Contents****SELECTED SUMMARY FINANCIAL INFORMATION****Liberty Media**

The following table provides you with selected historical consolidated financial data of Liberty Media. From August 1994 to March 1999 Liberty Media was a wholly-owned subsidiary of Tele-Communications, Inc. ( TCI ). On March 9, 1999, AT&T Corp. ( AT&T ) acquired TCI in a merger transaction. For financial reporting purposes, the merger of AT&T and TCI is deemed to have occurred on March 1, 1999. In connection with that merger, the assets and liabilities of Liberty Media were adjusted to their respective fair values pursuant to the purchase method of accounting. For periods prior to March 1, 1999, the assets and liabilities of Liberty Media and the related consolidated results of operations are referred to below as Old Liberty, and for periods subsequent to February 28, 1999, the assets and liabilities of Liberty Media and the related consolidated results of operations are referred to as New Liberty. Also, in connection with that merger, TCI effected an internal restructuring as a result of which certain assets and approximately \$5.5 billion in cash were contributed to Liberty Media. On August 10, 2001, AT&T effected a split-off of Liberty Media and as a result of that transaction, Liberty Media is no longer a subsidiary of AT&T. Liberty Media derived historical consolidated financial data from its consolidated financial statements. It is important that when you read this information, you read along with it the consolidated financial statements and accompanying notes of Liberty Media incorporated by reference into this proxy statement/ prospectus. For a list of documents incorporated by reference into this proxy statement/ prospectus, see Where You Can Find More Information, on page 13.

**New Liberty**

	<b>December 31,</b>					<b>Old Liberty</b>
	<b>June 30, 2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>December 31, 1998</b>
	<b>(unaudited)</b>					
	<b>amounts in millions</b>					
<i>Summary Balance Sheet Data:</i>						
Investment in affiliates	\$ 7,952	7,390	10,076	20,464	15,922	3,079
Investments in available-for-sale securities and other cost investments	\$ 19,817	14,369	21,152	16,774	27,906	10,539
Total assets	\$ 46,325	39,685	48,539	54,268	58,658	15,783
Long-term debt	\$ 6,390	4,316	4,764	5,269	2,723	1,912
Stockholders' equity	\$ 26,850	24,682	30,123	34,109	38,408	8,820

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	New Liberty					Old Liberty		
	Six months ended June 30,		Years ended December 31,			Ten months ended	Two months ended	Year ended
	2003	2002	2002	2001	2000	December 31, 1999	February 28, 1999	December 31, 1998
	(unaudited)	(unaudited)	amounts in millions, except per share amounts					
<i>Summary Statement of Operations Data:</i>								
Revenue	\$ 1,005	1,023	2,084	2,059	1,526	729	235	1,359
Operating income (loss)(1)	\$ (36)	65	(184)	(1,127)	436	(2,214)	(158)	(431)
Share of earnings (losses) of affiliates, net(2)	\$ 91	(244)	(453)	(4,906)	(3,485)	(904)	(66)	(1,002)
Nontemporary declines in fair value of investments	\$ (27)	(5,134)	(6,053)	(4,101)	(1,463)			
Realized and unrealized gains (losses) on derivative instruments, net	\$ (485)	1,574	2,122	(174)	223	(153)		
Gains (losses) on dispositions, net	\$ 97	(397)	(415)	(310)	7,340	4	14	2,449
Net earnings (loss)(1)(2)	\$ (332)	(4,660)	(5,330)	(6,203)	1,485	(2,021)	(70)	622
Basic and diluted net earnings (loss) per common share(3)	\$ (0.12)	(1.80)	(2.06)	(2.40)	0.57	(0.78)	(0.03)	0.24

- (1) Effective January 1, 2002, Liberty Media adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( Statement 142 ), which among other matters, provides that goodwill and other indefinite-lived assets no longer be amortized. Amortization expense for such assets aggregated \$627 million, \$598 million and \$438 million for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively, and was not significant in prior periods.
- (2) Included in share of losses of affiliates are other-than-temporary declines in value aggregating \$148 million, \$2,396 million and \$1,324 million for the years ended December 31, 2002, 2001, and 2000, respectively. In addition, share of losses of affiliates includes excess basis amortization of \$798 million, \$1,058 million and \$463 million for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively. Pursuant to Statement 142, excess costs that are considered equity method goodwill are no longer amortized, but are evaluated for impairment under APB Opinion No. 18.
- (3) The basic and diluted net earnings (loss) per common share for periods prior to Liberty Media's split off from AT&T is based upon 2,588 million shares of Liberty Media Series A and Series B common stock issued upon consummation of the split-off.

**Table of Contents****On Command**

The following table provides you with selected historical consolidated financial data of On Command. The financial data in the following table is derived from the consolidated financial statements of On Command. It is important that you read this information along with the consolidated financial statements and accompanying notes of On Command and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this proxy statement/ prospectus.

	Six months ended June 30,		Years ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(unaudited)	(unaudited)	(amounts in thousands, except per share data)				
Consolidated Statement of Operations Data:							
Total revenue	\$ 116,272	118,382	238,397	239,409	265,380	252,948	238,820
Net loss(1)	\$ (16,400)	(22,210)	(42,607)	(85,716)	(39,043)	(29,394)	(25,966)
Basic and diluted net loss per share	\$ (0.68)	(0.85)	(1.64)	(2.92)	(1.28)	(0.97)	(0.86)
Basic and diluted weighted average number of common shares outstanding	30,858	30,899	30,917	30,797	30,483	30,222	30,150

	June 30,	December 31,				
	2003	2002	2001	2000	1999	1998
	(unaudited)	(amounts in thousands)				
Consolidated Balance Sheet Data:						
Total assets	\$ 377,379	396,482	433,038	439,294	402,917	402,968
Long-term debt(2)	\$ 28	261,946	264,761	248,465	181,758	163,013
Redeemable securities	\$ 104,845	100,181	93,310			
Total stockholders' equity (deficit)	\$ (34,165)	(16,833)	33,234	125,057	164,147	190,005

- (1) The 2002 net loss includes impairment of cost investments of \$6.1 million. The 2001 net loss includes impairment of cost investments of \$19.6 million, relocation and restructuring expenses of \$17.0 million and a loss on litigation settlement of \$3.7 million. The 2000 net loss includes a loss on litigation settlement of \$4.8 million.
- (2) Prior to June 30, 2003, On Command reached agreement with its bank lenders to postpone until October 1, 2003, a step down of the leverage ratio covenant of its bank facility. In the absence of this postponement, On Command would not have been in compliance with the leverage ratio covenant at June 30, 2003. At June 30, 2003, On Command had \$265.6 million of borrowings outstanding under its bank facility, which has been classified as a current liability in On Command's June 30, 2003 consolidated balance sheet. On September 30, 2003, On Command received an unsecured, subordinated \$40 million loan from Liberty Media and used the proceeds therefrom to repay principal under the bank facility. On the same day, On Command closed the Amended and Restated Credit Agreement entered into among On Command and the lenders under its bank facility. The Amended and Restated Credit Agreement is a \$235 million senior secured credit facility consisting of a \$50 million revolving credit facility and a \$185 million term loan facility. At September 30, 2003, On Command had an aggregate of \$228.1 million of borrowings under the Amended and Restated Credit Agreement, consisting of \$182.5 million of borrowings under the term loan facility and \$45.6 million of borrowings under the revolving credit facility, with \$4.4 million of undrawn commitments available under the revolving credit facility. For additional information regarding the subordinated loan and the Amended and Restated Credit Agreement, please see the sections entitled "The Companies Involved in the Merger - On Command - Recent Developments," on page 23 and "Certain Related Party Transactions - Subordinated Loan," on page 85, and for more information regarding

the old bank facility and the amendments thereto, see the sections entitled "The Merger" and "Background of the Merger," on page 27 and 9

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Management's Discussion and Analysis of Financial Condition and Results of Operations, Six months ended June 30, 2003 and 2002, on page F-2.

**Unaudited Comparative Per Share Data**

The table below provides you with Liberty Media's and On Command's historical per share information as of and for the six months ended June 30, 2003 and as of and for the year ended December 31, 2002. It is important that when you read this information, you read along with it the consolidated financial statements and accompanying notes of Liberty Media incorporated by reference into this proxy statement/prospectus. It is also important that when you read this information, you read along with it the consolidated financial statements and accompanying notes of On Command, which are included elsewhere in this proxy statement/prospectus.

	<b>Liberty Media</b>	<b>On Command Historical</b>	<b>Liberty Media Pro Forma</b>	<b>On Command Pro Forma Equivalent(5)</b>
Book value per common share as of:				
June 30, 2003	\$ 10.00	(1.11)	10.00 (1)	1.66
December 31, 2002	\$ 9.18	(0.55)	9.18 (2)	1.52
Basic and diluted loss attributable to common shareholders per common share:				
Six months ended June 30, 2003	\$ (0.12)	(0.68)	(0.12)(3)	(0.02)
Year ended December 31, 2002	\$ (2.06)	(1.64)	(2.06)(4)	(0.34)

- (1) The pro forma book value per share is based upon 2,475 million shares of Liberty Media Series A common stock (using a 0.166 exchange ratio) and 212 million shares of Liberty Media Series B common stock. These amounts represent the number of shares that would have been outstanding if the merger of On Command and ONCO Acquisition Co. had been completed on June 30, 2003. As described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48, the exchange ratio is subject to certain adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period.
- (2) The pro forma book value per share is based upon 2,479 million shares of Liberty Media Series A common stock (using a 0.166 exchange ratio) and 212 million shares of Liberty Media Series B common stock. These amounts represent the number of shares that would have been outstanding if the merger of On Command and ONCO Acquisition Co. had been completed on December 31, 2002. As described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48, the exchange ratio is subject to certain adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period.
- (3) The pro forma basic and diluted loss per share is based upon 2,689 million weighted average shares of Liberty Media Series A (using a 0.166 exchange ratio) and Series B common stock outstanding for the six months ended June 30, 2003. This amount represents the number of weighted average shares that would have been outstanding if the merger of On Command and ONCO Acquisition Co. had been completed on January 1, 2002. As described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48, the exchange ratio is subject to certain adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period.
- (4) The pro forma basic and diluted loss per share is based upon 2,592 million weighted average shares of Liberty Media Series A (using a 0.166 exchange ratio) and Series B common stock outstanding for the year ended December 31, 2002. This amount represents the number of weighted average shares that would have been outstanding if the merger of On Command and ONCO Acquisition Co. had been completed on January 1, 2002. As described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48, the exchange ratio is subject to certain

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adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period.

- (5) The On Command pro forma equivalents have been determined by multiplying the Liberty Media pro forma amounts by the exchange ratio of 0.166 of a share of Liberty Media Series A common stock for each share of On Command common stock outstanding. As described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48, the exchange ratio is subject to certain adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period.

**Comparative Per Share Market Price and Dividend Information**

Shares of Liberty Media Series A common stock are traded on the New York Stock Exchange. Public trading of Liberty Media Series A common stock commenced on August 10, 2001, the date of Liberty Media's split off from AT&T, under the symbol "LMCA". On January 2, 2002, the trading symbol for the Liberty Media Series A common stock on the New York Stock Exchange was changed to "L". Through February 5, 2003, shares of On Command common stock were traded on the National Market System of The Nasdaq Stock Market, Inc. under the symbol "ONCO". As of February 6, 2003, shares of On Command common stock ceased to be included on Nasdaq and became eligible for quotation on the OTC Bulletin Board under the same symbol. The OTC Bulletin Board is a regulated quotation service and is not a national securities exchange. Historically, shares of On Command common stock have had low trading volume due to a relatively low number of shares held in the public float.

The following table sets forth, for the fiscal quarters indicated, the following:

the range of high and low sales prices in U.S. dollars of shares of On Command common stock on the Nasdaq National Market in 2002 and until On Command's securities ceased to be included on the Nasdaq National Market in 2003, and the range of high and low bid prices in U.S. dollars of shares of On Command common stock on the OTC Bulletin Board after On Command's securities ceased to be included on the Nasdaq National Market (the OTC Bulletin Board prices are interdealer prices, do not include retail markups, markdowns, or commissions and may not represent actual transactions); and

the range of high and low sales prices in U.S. dollars of shares of Liberty Media Series A common stock, as reported on the New York Stock Exchange Composite Transaction Tape.

	On Command Common Stock		Liberty Media Series A Common Stock	
	High	Low	High	Low
Year Ended December 31, 2002				
First quarter	\$8.00	2.84	15.03	11.90
Second quarter	\$5.68	1.35	12.80	7.70
Third quarter	\$2.00	0.45	9.60	6.16
Fourth quarter	\$0.96	0.30	10.75	6.29
Year Ended December 31, 2003				
First quarter (through February 5, 2003)	\$0.90	0.51	10.38	9.00
(February 6 through March 31, 2003)	\$1.05	0.65	10.25	8.45
Second quarter	\$1.30	0.60	12.25	9.52
Third quarter	\$2.05	0.65	12.27	9.86
Fourth quarter (through October 30, 2003)	\$1.87	1.76	10.64	9.81

Liberty Media's and On Command's fiscal year ends on December 31 of each year. Cash dividends have never been paid with respect to Liberty Media or On Command common stock. It is the current intention of Liberty Media to retain future earnings to finance operations and expand its business. Liberty Media does not anticipate paying any dividends on its common stock in the foreseeable future.

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The following table sets forth the closing bid price per share of On Command common stock as reported on the OTC Bulletin Board, and the closing price per share of Liberty Media Series A common stock as reported on the New York Stock Exchange Composite Transaction Tape, on:

September 9, 2003, the last full trading day prior to the public announcement of the merger; and

October 30, 2003, the last full trading day for which closing prices were available prior to the date of this proxy statement/ prospectus.

The table also presents, under the heading **Equivalent Per Share Price**, an amount equal to the closing price of a share of Liberty Media Series A common stock on the applicable date multiplied by 0.166, which is the fraction of a share of Liberty Media Series A common stock to be issued in the merger for each share of On Command common stock. As described in the section entitled **The Merger Agreement Consideration to be Received in the Merger**, on page 48, the exchange ratio is subject to certain adjustments based on the average closing price of Liberty Media Series A common stock for a specified five trading day period. These equivalent per share prices reflect the market value of the Liberty Media Series A common stock you would have received for each of your shares of On Command common stock if the merger had been completed on the specified dates and if the exchange ratio remained at 0.166 (the impact of the exchange ratio adjustments is detailed in the footnotes to the table below). Because the market price of Liberty Media Series A common stock may increase or decrease before the merger is completed, we urge you to obtain current market quotations.

<b>Dates</b>	<b>On Command Common Stock</b>	<b>Liberty Media Series A Common Stock</b>	<b>Equivalent Per Share Price</b>
September 9, 2003	\$0.95	\$11.85	\$1.97(1)
October 30, 2003	\$1.76	\$10.15	\$1.69(2)

- (1) If the exchange ratio used in this calculation were to be determined under the formula set forth in the merger agreement, then based on the average closing price of Liberty Media Series A common stock for the five trading days ending on the third trading day prior to September 9, 2003 (\$12.09), the exchange ratio would have remained at 0.166 if the closing had occurred on September 9, 2003.
- (2) If the exchange ratio used in this calculation were to be determined under the formula set forth in the merger agreement, then based on the average closing price of Liberty Media Series A common stock for the five trading days ending on the third trading day prior to October 30, 2003 (\$9.94), the exchange ratio would have been adjusted to 0.190 if the closing had occurred on October 30, 2003, unless Liberty Media had agreed to adjust the exchange ratio to .191. Please see page 48 of this proxy statement/ prospectus for a description of On Command's termination right and Liberty Media's right to increase the exchange ratio in a circumstance such as this when the average closing price over the relevant period is less than \$10.00 per share.

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**WHERE YOU CAN FIND MORE INFORMATION**

Liberty Media (File No. 000-20421) and On Command (File No. 000-21315) each file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information Liberty Media and On Command file at the Securities and Exchange Commission's public reference room at the following location:

Public Reference Room

450 Fifth Street, N.W.  
Room 1024  
Washington, D.C. 20549

Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. The Securities and Exchange Commission also maintains an internet site that contains reports, proxy statements and other information regarding Liberty Media and On Command. The address of the Securities and Exchange Commission website is [www.sec.gov](http://www.sec.gov). Information contained on any web site referenced in this proxy statement/ prospectus is not incorporated by reference in this proxy statement/ prospectus. Liberty Media and On Command's Securities and Exchange Commission filings are also available to the public from commercial document retrieval services. Liberty Media filed a registration statement on Form S-4 to register with the Securities and Exchange Commission its Series A common stock to be issued to On Command stockholders in the merger. This proxy statement/ prospectus is a part of that registration statement. As allowed by Securities and Exchange Commission rules, this proxy statement/ prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

Securities and Exchange Commission rules allow Liberty Media to incorporate by reference information into this proxy statement/ prospectus, which means that we can disclose important information to you by referring you to other documents filed separately with the Securities and Exchange Commission. The information incorporated by reference is an important part of this proxy statement/ prospectus and is deemed to be a part of this proxy statement/ prospectus, except for any information superseded or modified by information contained directly in this proxy statement/ prospectus or in any subsequently filed document that also is, or is deemed to be, incorporated by reference herein. This proxy statement/ prospectus incorporates by reference the documents set forth below that have previously been filed with the Securities and Exchange Commission. These documents contain important information about Liberty Media and its financial condition.

The following documents filed by Liberty Media are hereby incorporated by reference into this proxy statement/ prospectus:

Annual Report on Form 10-K for the year ended December 31, 2002, filed on March 25, 2003, as amended by Amendment No. 1 to the Annual Report on Form 10-K/A filed on April 9, 2003;

Quarterly Report on Form 10-Q for the three months ended March 31, 2003, filed on May 14, 2003;

Quarterly Report on Form 10-Q for the six months ended June 30, 2003, filed on August 13, 2003;

Current Reports on Form 8-K, filed on March 3, 2003, April 11, 2003, May 7, 2003, July 8, 2003, September 10, 2003, September 18, 2003 (as amended by the Form 8-K/A, filed on September 24, 2003) and September 23, 2003; and

The description of Liberty Media's capital stock contained in Annex A to its Form 8-A filed under the Securities Exchange Act of 1934 on July 24, 2001, and any amendment or report filed for the purpose of updating this description.

All documents filed by Liberty Media pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, subsequent to the date of this proxy statement/ prospectus and prior to the termination of the offering and any reoffering of the securities offered hereby are incorporated by reference into and are deemed to be a part of this proxy statement/ prospectus from the date of filing of those documents.



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You may request a copy of any and all of the documents incorporated by reference in this proxy statement/ prospectus at no cost, by writing or telephoning Liberty Media at:

Investor Relations

Liberty Media Corporation  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (877) 772-1518

**To obtain timely delivery of requested documents prior to the special stockholders meeting, you must request the incorporated information no later than *November 28, 2003, which is five business days prior to the meeting.***

This proxy statement/ prospectus incorporates by reference documents of Liberty Media that include information concerning On Command, Liberty Satellite, OpenTV Corp., and UnitedGlobalCom, Inc., among other public companies. All of these companies file reports and other information with the Securities and Exchange Commission in accordance with the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. Information incorporated by reference into this proxy statement/ prospectus concerning those companies has been derived from the reports and other information filed by them with the Securities and Exchange Commission. Except as otherwise specifically provided for herein, those reports and other information are not incorporated by reference into this proxy statement/ prospectus. You may read and copy any reports and other information filed by those companies with the Securities and Exchange Commission as set forth above.

You should rely only on the information contained in or incorporated by reference in this section into the proxy statement/ prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this proxy statement/ prospectus. This proxy statement/ prospectus is dated October 31, 2003. You should not assume that the information contained in this proxy statement/ prospectus is accurate as of any date other than that date, and neither the mailing of this proxy statement/ prospectus to stockholders nor the issuance of Liberty Media Series A common stock in the merger shall create any implication to the contrary.

On Command has supplied all information contained in this proxy statement/ prospectus relating to On Command.

Liberty Media has supplied all information contained or incorporated by reference in this proxy statement/ prospectus relating to Liberty Media.

This proxy statement/ prospectus may also be used as a prospectus for the resale by affiliates of On Command of shares of Liberty Media Series A common stock acquired in the merger. Any such resale would be reflected in a supplement to this proxy statement/ prospectus or a post-effective amendment of the registration statement, as appropriate.

If you have any questions about the proposed merger or the special meeting, please call On Command's Investor Relations Department at (720) 873-3640.

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**RISK FACTORS**

*If you hold your shares of On Command common stock on the date of the merger and do not properly exercise your appraisal rights, you will receive shares of Liberty Media Series A common stock and will become a stockholder of Liberty Media. An investment in our securities involves risk. You should carefully consider the following factors, as well as the other information included in this proxy statement/prospectus and in the documents we have incorporated by reference, before deciding whether to vote in favor of the merger. Any of the following risks could have a material adverse effect on the value of our securities.*

All references in these risk factors to we, us, our, our company or similar references are to Liberty Media.

**Risk Factors Relating to the Merger**

***The quotations for On Command's common stock on the OTC Bulletin Board may not adequately represent the market value of such shares.***

Effective with the open of business on February 6, 2003, The Nasdaq Stock Market terminated the listing of On Command common stock on The Nasdaq National Market as a result of On Command's failure to maintain a \$1.00 per share minimum bid price for its common stock. As a result, On Command common stock became available for quotation on the OTC Bulletin Board on February 6, 2003. The OTC Bulletin Board is a regulated quotation service and is not a national securities exchange. Historically, the over-the-counter market is generally considered a less efficient market than The Nasdaq National Market and since On Command's securities have been delisted from The Nasdaq National Market, its common stock has had low trading volume and there have been trading days where no sales of On Command common stock have occurred. Consequently, the quotations of On Command common stock on the OTC Bulletin Board may not adequately represent the market value of such shares and thus comparing the prices of our Series A common stock to On Command stock quotations on the OTC Bulletin Board may not be a reliable indicator of the relative values of such securities.

***The price of our Series A common stock may be affected by factors different from those affecting the price of On Command common stock.***

If the merger is completed, you will become a holder of our Series A common stock. Our businesses are much broader than the businesses of On Command, and the results of our operations, as well as the market price of our Series A common stock, may be affected by factors different from those affecting On Command's results of operations and the market price of On Command common stock. As a result, factors that had little or no effect on the price of On Command common stock may adversely affect the price of our Series A common stock.

**Risk Factors Relating to Our Company**

***We depend on a limited number of potential customers for carriage of our programming services.***

The cable television and direct-to-home satellite industries are currently undergoing a period of consolidation. As a result, the number of potential buyers of our programming services and those of our business affiliates is decreasing. In this more concentrated market, there can be no assurance that our owned and affiliated program suppliers will be able to obtain carriage of their programming services by distributors on commercially reasonable terms or at all.

***The liquidity and value of our interests in our business affiliates may be adversely affected by stockholder agreements and similar agreements to which we are a party.***

We own equity interests in a broad range of domestic and international video programming and communications businesses. A significant portion of the equity interests we own is held pursuant to stockholder agreements, partnership agreements and other instruments and agreements that contain provisions that affect the liquidity, and therefore the realizable value, of those interests. Most of these agreements subject



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the transfer of the stock, partnership or other interests constituting equity interests to consent rights or rights of first refusal of the other stockholders or partners. In certain cases, a change in control of our company or of the subsidiary holding our equity interest will give rise to rights or remedies exercisable by other stockholders or partners, such as a right to initiate or require the initiation of buy/sell procedures. Some of our subsidiaries and business affiliates are parties to loan agreements that restrict changes in ownership of the borrower without the consent of the lenders. All of these provisions will restrict our ability to sell those equity interests and may adversely affect the price at which those interests may be sold. For example, in the event buy/sell procedures are initiated at a time when we are not in a financial position to buy the initiating party's interest, we could be forced to sell our interest at a price based upon the value established by the initiating party, and that price might be significantly less than what we might otherwise obtain.

***We do not have the right to manage our business affiliates, which means we cannot cause those affiliates to operate in a manner that is favorable to us.***

We do not have the right to manage the businesses or affairs of any of our business affiliates in which we have less than a majority voting interest. Rather, our rights may take the form of representation on the board of directors or a partner's or similar committee that supervises management or possession of veto rights over significant or extraordinary actions. The scope of our veto rights varies from agreement to agreement. Although our board representation and veto rights may enable us to exercise influence over the management or policies of an affiliate and enable us to prevent the sale of material assets by a business affiliate in which we own less than a majority voting interest or prevent it from paying dividends or making distributions to its stockholders or partners, they do not enable us to cause these actions to be taken.

***Our business is subject to risks of adverse government regulation.***

Programming services, cable television systems, and satellite carriers are subject to varying degrees of regulation in the United States by the Federal Communications Commission and other entities. Such regulation and legislation are subject to the political process and have been in constant flux over the past decade. In addition, substantially every foreign country in which we have, or may in the future make, an investment regulates, in varying degrees, the distribution and content of programming services and foreign investment in programming companies and wireline and wireless cable communications, satellite and telephony services. Further material changes in the law and regulatory requirements must be anticipated, and there can be no assurance that our business and the business of our affiliates will not be adversely affected by future legislation, new regulation or deregulation.

***We may make significant capital contributions and loans to our subsidiaries and business affiliates to cover their operating losses and fund their development and growth, which could limit the amount of cash available to pay our own financial obligations or to make acquisitions or investments.***

The development of video programming, communications and technology businesses involves substantial costs and capital expenditures. As a result, many of our business affiliates have incurred operating and net losses to date and are expected to continue to incur significant losses for the foreseeable future. Our results of operations include our, and our consolidated subsidiaries', share of the net losses of affiliates. Our results of operations included net earnings (losses) attributable to affiliates of \$91 million, \$(244) million, \$(453) million, \$(4,906) million and \$(3,485) million for the six months ended June 30, 2003 and 2002, and for the years ended December 31, 2002, 2001 and 2000, respectively.

We have assisted, and may in the future assist, our subsidiaries and business affiliates in their financing activities by guaranteeing bank and other financial obligations. At June 30, 2003, we and our consolidated subsidiaries in the aggregate had guaranteed various loans, notes payable, letters of credit and other obligations of certain of our subsidiaries and business affiliates totaling approximately \$966 million.

To the extent we make loans and capital contributions to our subsidiaries and business affiliates or we are required to expend cash due to a default by a subsidiary or business affiliate of any obligation we guarantee,

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there will be that much less cash available to us with which to pay our own financial obligations or make acquisitions or investments.

***If we fail to meet required capital calls to a subsidiary or business affiliate, we could be forced to sell our interest in that company, our interest in that company could be diluted or we could forfeit important rights.***

We are parties to stockholder and partnership agreements that provide for possible capital calls on stockholders and partners. Our failure to meet a capital call, or other commitment to provide capital or loans to a particular subsidiary or business affiliate, may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash. See We could be unable in the future to obtain cash in amounts sufficient to service our financial obligations below.

***Those of our business affiliates that operate outside of the United States are subject to numerous operational risks.***

A number of our business affiliates operate primarily in countries other than the United States. Their businesses are thus subject to the following inherent risks:

fluctuations in currency exchange rates;

longer payment cycles for sales in foreign countries that may increase the uncertainty associated with recoverable accounts;

difficulties in staffing and managing international operations; and

political unrest that may result in disruptions of services that are critical to their businesses.

***The economies in many of the operating regions of our international business affiliates have recently experienced recessionary conditions, which have adversely affected the financial condition of their businesses.***

The economies in many of the operating regions of our international business affiliates have recently experienced moderate to severe recessionary conditions, including Argentina, Chile, the United Kingdom, Germany and Japan, among others, which has strained consumer and corporate spending and financial systems and financial institutions in these areas. As a result, our affiliates have experienced a reduction in consumer spending and demand for services coupled with an increase in borrowing costs, which has, in some cases, caused our affiliates to default on their own indebtedness. We cannot assure you that these economies will recover in the future or that continued economic weakness will not lead to further reductions in consumer spending or demand for services. We also cannot assure you that our affiliates in these regions will be able to obtain sufficient capital or credit to fund their operations.

***We have taken significant impairment charges due to other than temporary declines in the market value of certain of our available for sale securities.***

We own equity interests in a significant number of publicly traded companies which we account for as available for sale securities. We are required by accounting principles generally accepted in the United States to determine, from time to time, whether a decline in the market value of any of those investments below our cost for that investment is other than temporary. If we determine that the decline is other than temporary, we are required to write down our cost to a new cost basis, with the amount of the write-down accounted for as a realized loss in the determination of net income for the period in which the write-down occurs. We realized losses of \$27 million, \$5,134 million, \$6,053 million, \$4,101 million and \$1,463 million for the six months ended June 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000, respectively, due to

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other than temporary declines in the fair value of certain of our available for sale securities, and we may be required to realize further losses of this nature in future periods. We consider a number of factors in determining the fair value of an investment and whether any decline in an investment is other than temporary. As our assessment of fair value and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, the actual amount we may eventually realize for an investment could differ materially from our assessment of the value of that investment made in an earlier period.

***We could be unable in the future to obtain cash in amounts sufficient to service our financial obligations.***

Our ability to meet our financial obligations depends upon our ability to access cash. We are a holding company, and our sources of cash include our available cash balances, net cash from operating activities, dividends and interest from our investments, availability under credit facilities, monetization of our public investment portfolio and proceeds from asset sales. We cannot assure you that we will maintain significant amounts of cash, cash equivalents or marketable securities in the future.

We obtained from Liberty Satellite net cash in the form of dividends in the amount of \$8 million, \$23 million and \$5 million in calendar years 2002, 2001 and 2000, respectively. We did not obtain any cash from our subsidiaries during the six months ended June 30, 2003. The ability of our operating subsidiaries to pay dividends or to make other payments or advances to us depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of our subsidiaries are subject to loan agreements that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners.

We generally do not receive cash, in the form of dividends, loans, advances or otherwise, from our business affiliates. In this regard, we do not have sufficient voting control over most of our business affiliates to cause those companies to pay dividends or make other payments or advances to their partners or stockholders, including us.

***We are subject to bank credit agreements that contain restrictions on how we finance our operations and operate our business, which could impede our ability to engage in transactions that would be beneficial to us.***

Our subsidiaries are subject to significant financial and operating restrictions contained in outstanding credit facilities. These restrictions will affect, and in some cases significantly limit or prohibit, among other things, the ability of our subsidiaries to:

- borrow more funds;
- pay dividends or make other distributions;
- make investments;
- engage in transactions with affiliates; or
- create liens.

The restrictions contained in these credit agreements could have the following adverse effects on us, among others:

- we could be unable to obtain additional capital in the future to:
  - fund capital expenditures or acquisitions that could improve the value of our company;
  - permit us to meet our loan and capital commitments to our business affiliates;
  - allow us to help fund the operating losses or future development of our business affiliates; or
  - allow us to conduct necessary corporate activities;

we could be unable to access the net cash of our subsidiaries to help meet our own financial obligations;

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we could be unable to invest in companies in which we would otherwise invest; and

we could be unable to obtain lower borrowing costs that are available from secured lenders or engage in advantageous transactions that monetize our assets.

In addition, some of the credit agreements to which our subsidiaries are parties require them to maintain financial ratios, including ratios of total debt to operating cash flow and operating cash flow to interest expense. If our subsidiaries fail to comply with the covenant restrictions contained in the credit agreements, that failure could result in a default that accelerates the maturity of the indebtedness under those agreements. Such a default could also result in indebtedness under other credit agreements and certain debt securities becoming due and payable due to the existence of cross-default or cross-acceleration provisions of these credit agreements and in the indentures governing these debt securities.

As of June 30, 2003, the subsidiary of our company that operates the DMX Music service was not in compliance with three covenants contained in its bank loan agreement, under which it has \$89 million outstanding. Although the subsidiary and the participating banks have entered into a forbearance agreement whereby the banks have agreed to forbear from exercising certain default-related remedies against the subsidiary through March 31, 2004, we cannot assure you that the subsidiary will be able to regain covenant compliance or refinance the bank loan or that the banks will not eventually seek to exercise their remedies.

## **Risks Relating to our Series A Common Stock**

***Our stock price may decline significantly because of stock market fluctuations that affect the prices of the public companies in which we have ownership interests.***

The stock market has recently experienced significant price and volume fluctuations that have affected the market prices of securities of media and other technology companies. We own equity interests in many media and technology companies. If market fluctuations cause the stock price of these companies to decline, our stock price may decline.

***Our stock price has fluctuated significantly over the last year.***

During the past year, the stock market has experienced significant price and volume fluctuations that have affected the market prices of our stock. In the future, our stock price may be materially affected by, among other things:

actual or anticipated fluctuations in our operating results or those of the companies in which we invest;

potential acquisition activity by our company or the companies in which we invest;

issuances of debt or equity securities by us to raise capital;

changes in financial estimates by securities analysts regarding our company or companies in which we invest; or

general market conditions.

***It may be difficult for a third party to acquire us, even if doing so may be beneficial to our stockholders.***

Certain provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a change in control of our company that a stockholder may consider favorable. These provisions include the following:

authorizing a dual class structure, which entitles the holders of our Series B common stock to ten votes per share and the holders of our Series A common stock to one vote per share;

authorizing the issuance of blank check preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;



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classifying our board of directors with staggered three-year terms, which may lengthen the time required to gain control of our board of directors;

limiting who may call special meetings of stockholders;

prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders; and

establishing advance notice requirements for nominations of candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our chairman, John C. Malone, holds the power to direct the vote of approximately 44% of our outstanding voting power, including the power to direct the vote of approximately 94% of the outstanding shares of our Series B common stock. Dr. Malone holds a portion of his voting power over our Series B common stock pursuant to a stockholders agreement with the Estate of Bob Magness, the late Kim Magness, Gary Magness and certain limited liability companies controlled by Gary Magness and the Estate of Kim Magness.

Section 203 of the Delaware corporate statute and our stock incentive plan may also discourage, delay or prevent a change in control of our company even if such change of control would be in the best interests of our stockholders.

**CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

**Certain statements in this proxy statement/ prospectus, including documents incorporated by reference herein, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. To the extent that such statements are not recitations of historical fact, such statements constitute forward-looking statements which, by definition, involve risks, uncertainties and assumptions. When used in this proxy statement/ prospectus and in our incorporated documents, the words believe, anticipate, intend, estimate, expect and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Forward-looking statements include, among other things, the factors described above under the Risk Factors section of this proxy statement/ prospectus and the following factors that could cause actual results or events to differ materially from those anticipated:**

general economic and business conditions and industry trends;

spending on domestic and foreign television advertising;

the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;

continued consolidation of the broadband distribution industry;

uncertainties inherent in new business strategies, new product launches and development plans;

rapid technological changes;

the acquisition, development and/or financing of telecommunications networks and services;

the development and provision of programming for new television and telecommunications technologies;

future financial performance, including availability, terms and deployment of capital;

the ability of vendors to deliver required equipment, software and services;

the outcome of any pending or threatened litigation;



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availability of qualified personnel;

changes in, or our failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;

changes in the nature of key strategic relationships with partners and joint venturers;

competitor responses to our products and services, and the products and services of the entities in which we have interests, and the overall market acceptance of these products and services; and

actual or threatened terrorist attacks and ongoing military action, including armed conflict in the Middle East and other parts of the world.

**These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this proxy statement/prospectus. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.**

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**THE COMPANIES INVOLVED IN THE MERGER**

**Liberty Media**

Liberty Media is a holding company which, through its ownership of interests in subsidiaries and other entities, is engaged in (i) the production, acquisition and distribution through all available formats and media of branded entertainment, educational and informational programming and software, including multimedia products, (ii) electronic retailing, direct marketing, advertising sales related to programming services, infomercials and transaction processing, (iii) international cable television distribution, telephony and programming, (iv) satellite communications, and (v) investments in wireless domestic telephony and other technology ventures. Liberty Media and its affiliated companies operate in the United States, Europe, South America and Asia with some of the world's most recognized and respected brands, including QVC, Encore, STARZ!, Discovery, IAC/InterActiveCorp, Court TV and Sprint PCS. For more detailed information on the business of Liberty Media, please see the section entitled "Where You Can Find More Information," on page 13 of this proxy statement/prospectus.

**On Command**

*General.* On Command, together with its subsidiaries, is a leading provider (in terms of revenue and number of rooms served) of in-room entertainment and information services to hotels, motels and resorts. At June 30, 2003, On Command provided in-room entertainment services to approximately 885,000 hotel rooms. Approximately 89% of On Command's total equipped rooms at June 30, 2003 were located in the United States, with the balance located primarily in Canada and Mexico. The majority of On Command's domestic operations are conducted through its primary subsidiary, On Command Video Corporation. A hotel, motel or resort is collectively referred to as a "hotel." For additional information with respect to On Command, see the section entitled "Business of On Command" on page 63.

*History.* On Command Corporation is a Delaware corporation formed in July 1996. At all relevant times since its formation, it has been a majority-owned subsidiary of Ascent Entertainment Group, Inc. On March 28, 2000, Liberty Media closed a cash tender offer for the common stock of Ascent Entertainment, and thereby obtained control of On Command. On June 8, 2000, Liberty Media completed a merger with Ascent Entertainment pursuant to which Ascent Entertainment became an indirect, wholly owned subsidiary of Liberty Media. As a result of the foregoing transactions, Liberty Media acquired beneficial ownership of the 17,159,207 shares of On Command common stock then held by Ascent Entertainment.

During 2001, Ascent Entertainment purchased 2,244,155 shares of On Command's common stock from On Command's former Chairman of the Board and Chief Executive Officer, and Liberty Media board member, Jerome H. Kern. This transaction is described in the section entitled "Certain Related Party Transactions - Issuance of Series A Preferred Stock and Common Stock Repurchase," on page 85 of this proxy statement/prospectus. Also during 2001, On Command issued to Ascent Entertainment Series B Cumulative Redeemable Preferred Stock, par value \$.01 per share, Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share, and Series D Cumulative Convertible Redeemable Preferred Stock, par value \$.01 per share, in exchange for aggregate net cash proceeds of \$84,926,000. The Certificate of Designation of the Series D Preferred Stock provides that, effective January 1, 2003, Ascent Entertainment is entitled to vote the Series D Preferred Stock on an as-converted basis on all matters that holders of On Command common stock are entitled to vote upon. As of September 30, 2003, the aggregate liquidation preference of the Series B, Series C and Series D preferred stock held by Ascent Entertainment was \$104,669,426, reflecting the addition to initial liquidation preference of accrued dividends, in accordance with the certificates of designation of such preferred stock. As of September 30, 2003, the 60,000 shares of Series D Preferred Stock held by Ascent Entertainment were convertible at the option of Ascent Entertainment into 9,404,022 shares of On Command common stock. The Series B and Series C preferred stock of On Command are not convertible. For additional information regarding On Command's common and preferred stock, please see the sections entitled "Comparison of Stockholder Rights," on page 58 of this proxy statement/prospectus and "Certain Related Party Transactions," on page 85 of this proxy statement/prospectus.

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In April 2002, Liberty Satellite, a majority-owned subsidiary of Liberty Media, acquired 100% of the common equity of Ascent Entertainment. During the fourth quarter of 2002 and the first quarter of 2003, Liberty Satellite acquired an additional 3,373,812 shares of On Command common stock through open market purchases. As of June 30, 2003, Liberty Satellite owned approximately 74% of the outstanding common stock of On Command, and approximately 80% of the total voting power associated with On Command's equity securities. Accordingly, Liberty Satellite currently has the voting power to control all matters requiring majority approval of On Command's stockholders.

On Command has sustained losses from operations and net losses since inception and, as of June 30, 2003, reported an accumulated deficit of approximately \$302,177,000.

*Recent Developments.* On September 30, 2003, On Command received a \$40 million unsecured subordinated loan from Liberty Media, the proceeds of which were used to repay a portion of the outstanding principal amount of loans under On Command's then existing bank credit facility (the "Original Revolving Credit Facility"). Concurrently On Command closed on an Amended and Restated Credit Agreement that replaced the Original Revolving Credit Facility (the "Amended and Restated Credit Agreement"). The Original Revolving Credit Facility provided for aggregate borrowings of \$275 million, of which \$265.6 million had been drawn prior to September 30, 2003, and was due and payable in July 2004.

The Amended and Restated Credit Agreement provides for a \$235 million senior secured credit facility, consisting of a \$50 million revolving credit facility and a \$185 million term loan facility. The term loan is subject to scheduled quarterly amortizations of principal, of which the first payment of \$2.5 million was made on September 30, 2003. Both the revolving loan and term loan facilities mature on December 31, 2007. Loans under the Amended and Restated Credit Agreement can be extended as either ABR loans or Eurodollar loans. ABR loans bear interest at the per annum rate equal to the greater of (1) the prime rate and (2) the federal funds rate plus 0.5%, plus, in each case, a spread of between 0.125% and 2.5% depending on On Command's leverage ratio (6.5% effective borrowing rate at September 30, 2003). As of September 30, 2003, there were no ABR loans outstanding. Eurodollar loans bear interest at the London interbank offered rate for U.S. dollar deposits plus a spread of between 1.125% and 3.5% depending on On Command's leverage ratio (4.64% effective borrowing rate at September 30, 2003). In addition, a facility fee ranging from 0.375% to 0.5% per annum is charged on the revolving credit facility depending on On Command's leverage ratio. The Amended and Restated Credit Agreement contains customary covenants and agreements, including restrictions on On Command's ability to pay dividends or make other distributions and covenants to maintain leverage ratios and interest coverage ratios. Substantially all of On Command's assets are pledged as collateral for borrowings under the Amended and Restated Credit Agreement. At September 30, 2003, On Command had an aggregate of \$228.1 million of borrowings under the Amended and Restated Credit Agreement, consisting of \$182.5 million of borrowings under the term loan facility and \$45.6 million of borrowings under the revolving credit facility, with \$4.4 million of undrawn commitments available under the revolving credit facility.

The \$40 million loan made by Liberty Media is unsecured, bears interest at the rate of 10% per annum and matures on the later of December 31, 2008 and the date that is one year after the maturity date of the Amended and Restated Credit Agreement, as it may be amended, supplemented or otherwise modified from time to time. Pursuant to a subordination agreement between On Command and Liberty Media entered into on September 30, 2003, On Command's obligations with respect to the \$40 million loan are subordinated to its obligations to the lenders under the Amended and Restated Credit Agreement and no payments of principal or interest on such loan may be made until all obligations under the Amended and Restated Credit Agreement are indefeasibly paid in full. For additional information see the sections entitled "The Merger Background of the Merger" on page 27 and "Certain Related Party Transactions Subordinated Loan" on page 85.

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**THE SPECIAL MEETING**

**General**

This proxy statement/ prospectus is first being mailed, on or about November 4, 2003, to all persons who were On Command stockholders of record on October 24, 2003.

On Command stockholders are being provided with a notice of special meeting and a form of proxy card that is solicited by On Command's board of directors for use at the special meeting of On Command stockholders and at any adjournments or postponements of that meeting.

At the special meeting, On Command stockholders will consider and vote upon a proposal to approve the merger agreement, dated as of September 9, 2003, among On Command, Liberty Media and ONCO Acquisition Co., a controlled subsidiary of Liberty Media, pursuant to which Liberty Media would acquire all of the shares of On Command common stock that are not already beneficially owned by Liberty Media and its subsidiaries, including Liberty Satellite.

The special meeting of On Command stockholders will be held at the following time and place:

December 5, 2003

9:00 a.m., local time  
On Command Corporate Headquarters  
4610 South Ulster Street, 6th Floor  
Denver, Colorado 80237

**Proxies**

On Command stockholders may vote their shares by completing, signing, dating and returning the enclosed proxy card solicited by On Command's board of directors if they are unable to attend the special meeting in person or wish to have their shares of On Command common stock voted by proxy even if they do attend the meeting.

An On Command stockholder may revoke any proxy given in connection with this solicitation by:

Delivering a written notice revoking the proxy prior to the taking of the vote at the special meeting;

Delivering a duly executed proxy relating to the same shares bearing a later date; or

Attending the meeting and voting in person (however, attendance at the special meeting without voting at the meeting will not in and of itself constitute a revocation of a proxy).

On Command stockholders should address all written notices of revocation and other communications with respect to the revocation of proxies to the following:

On Command Corporation

Attention: Corporate Secretary  
4610 South Ulster Street, 6th Floor  
Denver, Colorado 80237

For a notice of revocation or later proxy to be valid, however, On Command must actually receive it prior to the vote of On Command stockholders at the special meeting. All shares of On Command common stock represented by valid proxies received through this solicitation and not revoked prior to their exercise will be voted (or not voted) in accordance with the voting instructions specified on the proxy card. If no specification is made on the proxy card, shares of On Command common stock represented by valid proxies received and not revoked prior to their exercise will be voted for the adoption of the merger agreement and the approval of the merger and in the best judgment of the proxy holder

as to any other matters that properly may come before the special meeting.

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On Command is currently unaware of any other matters that may be presented for action at the special meeting. If other matters do properly come before the special meeting, including, among other things, consideration of a motion to adjourn the special meeting to another time and/or place, then shares of On Command common stock represented by proxies will be voted (or not voted) by the persons named in the proxies in their best judgment.

**Stockholders should not send in any stock certificates with their proxy cards.**

### **Record Date; Stockholders Entitled to Vote**

On Command's board of directors has fixed the close of business on October 24, 2003 as the record date for the determination of On Command stockholders entitled to receive notice of and to vote at On Command's special meeting of stockholders. Accordingly, only On Command stockholders of record at the close of business on October 24, 2003 will be entitled to notice of and to vote at the special meeting.

At the close of business on On Command's record date, there were 30,822,340 shares of On Command common stock entitled to vote at the special meeting held by approximately 349 holders of record. In addition, on the record date, there were 13,500 shares of On Command Series A preferred stock entitled to vote at the special meeting held by one holder of record and there were 60,000 shares of On Command Series D preferred stock entitled to vote at the special meeting, all of which are held by a wholly-owned subsidiary of Liberty Satellite. The Series A and D preferred stock, which are convertible into On Command common stock, are entitled to vote together with On Command common stockholders on all matters submitted to the On Command common stockholders, with holders of the Series A and D preferred stock to have the number of votes that they would have if all of the Series A and D preferred stock had been converted into common stock. On the record date, the Series A preferred stock was convertible into 1,350,000 shares of On Command common stock and the Series D preferred stock was convertible into 9,404,023 shares of On Command common stock.

### **Quorum; Voting Rights and Vote Required**

The presence, in person or by proxy, of a majority of the total voting power of the outstanding shares of stock entitled to vote at the On Command special meeting is necessary to constitute a quorum.

Each share of On Command common stock outstanding on On Command's record date entitles its holder to one vote as to the approval of the merger agreement and the merger or any other proposal that may properly come before the special meeting.

For purposes of determining the presence or absence of a quorum for the transaction of business, On Command will count shares of On Command common stock present in person at the special meeting but not voting, and shares of On Command common stock for which it has received proxies but with respect to which holders of these shares have abstained, as present at the special meeting. Abstentions are counted as present at the On Command special meeting for purposes of determining whether a quorum exists, but will have the effect of a vote against the proposal to adopt the merger agreement and approve the merger.

If your shares are registered in the name of a broker or other street name nominee, your votes will only be counted as to those matters actually voted. If you do not provide voting instructions (commonly referred to as broker non-votes), your shares will be counted for purposes of determining the presence or absence of a quorum for the transaction of business, but will not be voted in favor of the proposal to adopt the merger agreement and approve the merger. As with abstentions, broker non-votes will also have the effect of a vote against the proposal to adopt the merger agreement and approve the merger.

Under Delaware law, adoption of the merger agreement and approval of the merger requires the affirmative vote of the holders of a majority of all votes entitled to be cast at the special meeting. Liberty Satellite is the beneficial owner of 32,182,075 shares of On Command common stock (which includes 9,404,023 shares issuable upon conversion of On Command Series D preferred stock), which shares represent approximately 80% of the total voting power of On Command stockholders entitled to vote at the special meeting. The Liberty Satellite board of directors has authorized Liberty Satellite to vote its shares of On



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Command common and preferred stock for the adoption of the merger agreement and approval of the merger, which would assure that a quorum would be present and the merger would be approved at the special meeting without any action on the part of any other holder of On Command common stock. Liberty Media owns approximately 87% of Liberty Satellite's outstanding common stock, and approximately 98% of the total voting power associated with Liberty Satellite's equity securities. Accordingly, it is expected that the merger agreement will be adopted and the merger will be approved at the special meeting. Liberty Satellite is not subject to any binding agreement to vote in favor of the merger proposal, and there can be no assurance that the board of directors of Liberty Satellite will not revoke such authorization prior to the special meeting. However, in the merger agreement, in its capacity as beneficial owner of On Command stock, Liberty Media agreed to use commercially reasonable efforts to cause On Command stock beneficially owned by Liberty Media (which would include the shares owned by Liberty Satellite) to be voted in favor of the adoption of the merger agreement at the special meeting.

As of the record date, the directors and executive officers of On Command owned 3,200 shares of On Command common stock and no shares of On Command preferred stock, and held exercisable options to acquire 430,000 shares of On Command common stock.

**Expenses; Solicitation of Proxies**

Pursuant to the merger agreement, costs and expenses incurred in connection with the printing and mailing of this proxy statement/prospectus will be paid 50% by Liberty Media and 50% by On Command. In addition to solicitation by mail, proxies may be solicited by directors, officers and employees of On Command in person or by telephone, telegram or other means of communication. These directors, officers and employees will receive no additional compensation for these services, but may be reimbursed for reasonable out-of-pocket expenses in connection with any solicitations. Brokerage firms, banks, nominees, fiduciaries and other custodians will be requested to forward proxy solicitation materials to the beneficial owners of shares held of record by them, and will be reimbursed for the reasonable expenses incurred by them in connection therewith.

**Voting of Shares held by Brokerage Firm or Other Nominee**

If your shares of On Command common stock are held in the name of a brokerage firm, bank nominee or other institution, only it can sign a proxy card with respect to your shares of On Command common stock. Accordingly, please contact the person responsible for your account and give instructions for a proxy card to be signed representing your shares of On Command common stock.

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**THE MERGER**

**General**

The merger agreement provides for the acquisition by Liberty Media of all shares of On Command common stock not owned by Liberty Media and certain subsidiaries, including Liberty Satellite, through the merger of ONCO Acquisition Co., a controlled subsidiary of Liberty Media, with and into On Command, which will be the surviving corporation.

In the merger, each outstanding share of On Command common stock will be converted into 0.166 of a share of Liberty Media Series A common stock (except for any shares for which appraisal rights are exercised and except for those shares owned by ONCO Acquisition Co., Liberty Satellite, Liberty Media and their respective wholly-owned subsidiaries), subject to the adjustment described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48. If the number of shares of Liberty Media Series A common stock that you would receive in the merger includes a fraction of a share of Liberty Media Series A common stock, Liberty Media will instead pay you an equivalent cash amount, as described below, rather than give you a fractional share of Liberty Media Series A common stock.

This proxy statement/prospectus also constitutes a prospectus of Liberty Media, which forms a part of the registration statement on Form S-4 filed by Liberty Media with the Securities and Exchange Commission under the Securities Act of 1933 in order to register the shares of Liberty Media Series A common stock to be issued to On Command's stockholders in the merger. The total number of shares of Liberty Media Series A common stock to be issued in the merger, based on the number of shares of On Command common stock outstanding on September 30, 2003, is approximately 1,335,331 (this amount is subject to change based on the adjustment to the merger exchange ratio described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48). Up to 699,889 additional shares of Liberty Media Series A common stock included in this registration statement will be reserved for issuance upon the exercise of options and vesting of restricted stock awards for On Command common stock and upon the conversion of On Command Series A preferred stock outstanding on the effective date of the merger or upon the conversion in the merger of any shares of On Command common stock issued upon any exercise of these outstanding options, vesting of these restricted stock awards or conversion of this outstanding preferred stock prior to the effective date of the merger.

To the extent that any quoted prices for On Command common stock referred to in this proxy statement/prospectus reflect the closing or last reported bid price or closing or last reported sale price, as the case may be, of On Command common stock as of a given trading day, such bid may have been posted, or such sale may have occurred one or more trading days prior to the trading day referred to in instances where there were no sales of On Command common stock during such trading day.

**Background of the Merger**

During the first half of August, 2002, On Command management approached Liberty Media to propose that Liberty Media, or an affiliate, make an additional \$25 million cash equity investment in On Command. On Command proposed to use the proceeds of such investment to pay down a portion of On Command's bank debt, so as to enable On Command to comply with certain financial covenants under its Original Revolving Credit Facility. However, Liberty Media advised On Command in response to such proposal that it was not then interested in making such an investment.

On August 16, 2002, On Command was notified by The Nasdaq Stock Market that On Command was out of compliance with Nasdaq's minimum stockholder equity requirement for continued inclusion on the Nasdaq National Market. On Command then approached Liberty Media with the alternative proposal that Liberty Media's affiliate convert or exchange all or a portion of its existing Series B and Series C preferred stock investment in On Command into common stock, or another voting security that would be treated as equity capital for purposes of Nasdaq's stockholder equity requirements.

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On Command and Liberty Media subsequently began negotiations regarding such a possible conversion or exchange, which continued periodically over the next five and one-half months. During such negotiations the parties discussed: various exchange rates; different valuation methods for the Series B and Series C preferred stock; the possible concurrent modification of the Series D preferred stock held by Liberty Media's affiliate to permit payment of dividends in shares of On Command common stock; possible additional equity investments to be made concurrently with, or in lieu of, such a conversion or exchange; and the potential benefits to Liberty Media, if such transaction enabled Liberty Media to consolidate On Command for U.S. federal income tax purposes. However, such negotiations did not result in an agreement between On Command and Liberty Media regarding any such potential transaction.

On February 4, 2003, On Command received notification that its securities would be delisted from the Nasdaq National Market effective February 6, 2003. Subsequently, there were no further negotiations between Liberty Media and On Command regarding an exchange transaction or modification of preferred stock.

On March 28, 2003, On Command and its bank lenders amended On Command's Original Revolving Credit Facility to postpone until June 30, 2003 the step down of the leverage ratio covenant of the Original Revolving Credit Facility from 4.25 to 3.50. In the absence of this postponement, On Command would not have been in compliance with the leverage ratio covenant at March 31, 2003. Simultaneously, On Command and its bank lenders negotiated an Amended and Restated Credit Agreement, which would replace the Original Revolving Credit Facility. The form of the Amended and Restated Credit Agreement was agreed upon by March 28, 2003, but the agreement was not fully executed until April 17, 2003. The effectiveness of the Amended and Restated Credit Agreement was contingent upon the contribution of \$40 million by Liberty Media or one of its subsidiaries to On Command to be used to repay principal due, and permanently reduce lender commitments, pursuant to the Amended and Restated Credit Agreement. However, Liberty Media had no obligation to make any contribution to On Command, and On Command had no assurance that any such contribution would be made or, if made, what the form or terms would be. If it did not become effective earlier, and if it was not otherwise amended, the Amended and Restated Credit Agreement was scheduled to terminate on June 30, 2003.

On March 31, 2003, Liberty Media sent a letter to the board of directors of On Command expressing interest in a potential business combination with On Command pursuant to which the holders of On Command common stock (other than Liberty Media and its subsidiaries) would receive 0.0787 of a share of Liberty Media Series A common stock for each share of On Command common stock. The proposed exchange ratio was based on a valuation of \$0.77 per share of On Command common stock.

On April 2, 2003, the board of directors of On Command met by conference telephone to discuss the merger proposal contained in the March 31, 2003 letter from Liberty Media. Because Liberty Satellite, a subsidiary of Liberty Media, is the beneficial owner of approximately 74% of On Command's outstanding common stock, and directors and executive officers of Liberty Media and its affiliates constitute a majority of the On Command board of directors and may thus have an interest in the consummation of the proposed merger that conflicts with the interests of On Command and its other stockholders, the board of directors of On Command authorized the creation of a special committee of the board composed of two directors, Mr. Mark K. Hammond and Mr. J. David Wargo, neither of whom is an officer or employee of Liberty Media or any of its affiliates. The board of directors of On Command delegated to the special committee the responsibility and authority to negotiate the terms of a possible business combination with Liberty Media on behalf of On Command, if the special committee determined that such a business combination was in the best interests of the stockholders of On Command, and authorized the special committee to engage independent legal counsel and an independent financial advisor. In consideration of the anticipated time requirements and commitments required of the members of the special committee, the On Command board of directors authorized a fee of \$60,000 for each member together with reimbursement of the members' out-of-pocket expenses as compensation for their service on the special committee. On April 2, 2003, On Command publicly announced the Liberty Media proposal and the formation of the special committee.

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Shortly after On Command's announcement on April 2, 2003 of Liberty Media's initial merger proposal, a putative class action lawsuit was filed on behalf of On Command's stockholders in the Court of Chancery of the State of Delaware against Liberty Media, On Command and members of the board of directors and certain officers of On Command. The complaint alleged various breaches of fiduciary duty and other claims in connection with the proposed merger and sought preliminary and permanent injunctive relief, and if the merger was consummated, rescission and damages.

After interviewing candidates, on April 7, 2003 the special committee retained Patterson, Belknap, Webb & Tyler LLP as its counsel. During a conference telephone call among the special committee and Patterson, Belknap on April 7, 2003, Mr. Hammond and Mr. Wargo discussed with Patterson, Belknap the standards of independence and fiduciary duty that each member of the special committee was required to satisfy and the process for evaluating the merger proposal from Liberty Media and determined, after a discussion of the directors' equity holdings and business relationships, that neither of the directors had any relationships that would compromise their ability to objectively evaluate the proposal and vigorously negotiate the transactions contemplated by the proposal. The special committee also discussed with its legal advisors the process by which independent financial advisors to the special committee should be selected and retained.

On April 8 and 9, 2003, Mr. Hammond and Mr. Wargo met with representatives of several investment banks that had been invited by the special committee to make presentations regarding their qualifications to serve as financial advisor to the special committee and to render an opinion regarding fairness. Following telephone meetings of the special committee held on April 10 and 15, 2003, during which Mr. Hammond and Mr. Wargo discussed the relative merits of the candidate firms they had interviewed to serve as financial advisor to the special committee, they selected Credit Suisse First Boston LLC, primarily based on its experience, reputation and familiarity with On Command's business and the business of Liberty Media. During this period, the special committee, with the assistance of Patterson, Belknap, negotiated an engagement letter with Credit Suisse First Boston.

On April 21, 2003, the special committee met by conference telephone with Ms. Beth Chartoff, Director of Credit Suisse First Boston, to discuss the financial and other due diligence information regarding On Command and Liberty Media that would be required for the special committee to evaluate the Liberty Media merger proposal and the process and timing of collecting and analyzing this information. On May 8, 2003, the engagement letter retaining Credit Suisse First Boston to act as financial advisor to the special committee was executed and the special committee met by conference telephone with Ms. Chartoff to continue these discussions and to schedule a meeting of the special committee, representatives of Credit Suisse First Boston and On Command management for the purpose of gathering this information.

On May 14, 2003, Mr. Hammond, Mr. Wargo and representatives of Credit Suisse First Boston met with Christopher Sophinos, the President and Chief Executive Officer of On Command, Bernard G. Dvorak, the Senior Vice President, Chief Financial Officer and Treasurer of On Command, and other members of On Command management at the offices of On Command in Denver, Colorado. Mr. Hammond participated in this meeting by conference telephone. During this meeting, On Command management delivered to the special committee and Credit Suisse First Boston a binder of written material containing financial and other due diligence information regarding On Command, and discussed with the special committee and Credit Suisse First Boston certain financial and other information regarding On Command, including management's then current five-year financial projections for On Command and the material assumptions underlying these projections (the "Initial Projections"). The Initial Projections had first been prepared by On Command management in January 2003, and had previously been included in materials provided to the board of directors of On Command in connection with the board's meeting on February 20, 2003. However, the On Command board did not deliberate regarding such projections or vote to approve or reject them.

On May 21, 2003, the special committee met by conference telephone with representatives of Credit Suisse First Boston to discuss the Initial Projections, other information regarding On Command collected by Credit Suisse First Boston and a preliminary range of valuations for On Command. Such preliminary range of valuations was developed by the special committee with the assistance of Credit Suisse First Boston, based upon the Initial Projections and other information provided by On Command, as well as a range of possible

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discount rates and other assumptions. On the basis of these discussions, the special committee decided to contact Liberty Media with a view to obtaining a higher exchange ratio than the 0.0787 contained in the Liberty Media merger proposal. To that end, on May 23, 2003, Patterson Belknap wrote a letter to Elizabeth M. Markowski, Esq., in her capacity as Senior Vice President of Liberty Media, outlining the position of the special committee regarding the proposed 0.0787 exchange ratio and certain structural aspects of the Liberty Media merger proposal, including a request that any merger transaction negotiated between the special committee and Liberty Media be subject to approval by a majority of the disinterested shares of On Command. Ms. Markowski subsequently advised Patterson Belknap that Liberty Media would not be willing to make a merger transaction subject to approval by a majority of the disinterested shares. In addition to her role as an officer of Liberty Media, Ms. Markowski is also an Assistant Secretary of On Command.

On May 30, 2003, the special committee met by conference telephone with representatives of Credit Suisse First Boston. During this meeting, Mr. Hammond, Mr. Wargo and Credit Suisse First Boston discussed a preliminary financial analysis of the proposed 0.0787 exchange ratio, which indicated that the proposed 0.0787 exchange ratio was below the range of valuations for On Command the special committee deemed acceptable on the basis of a discounted cash flow analysis of the Initial Projections, and other factors. On the basis of the discussions at this meeting, the special committee decided to schedule another meeting of the special committee with On Command management.

On June 3, 2003, Mr. Wargo met with Mr. Sophinos and Mr. Dvorak of On Command at the offices of On Command in Denver, Colorado. Mr. Hammond participated in this meeting by conference telephone. At this meeting, the participants discussed the Initial Projections and other materials provided at the May 14 meeting.

On June 11, 2003, Mr. Wargo received a telephone call from John A. Orr, Vice President of Liberty Media, in response to the May 23, 2003 letter from Patterson Belknap to Ms. Markowski. During this call, Mr. Orr indicated his interest in beginning the negotiations on the proposed merger terms.

On June 12, 2003, Mr. Hammond and Mr. Wargo met by telephone and discussed Mr. Wargo's June 11, 2003 telephone call with Mr. Orr. Later that day, they met by conference telephone with representatives of Credit Suisse First Boston and discussed the special committee's preliminary financial analysis of the proposed 0.0787 exchange ratio, the material assumptions underlying the Initial Projections and various negotiation strategies.

On June 13, 2003, Mr. Hammond and Mr. Wargo met with Mr. Orr by conference telephone and discussed the Initial Projections and the material assumptions underlying the Initial Projections. Mr. Orr expressed that although he had confidence in the existing On Command management team, On Command's Initial Projections were well in excess of its historical growth and margin performance. Mr. Orr stated that the special committee, in examining the Initial Projections, should consider an appropriate risk adjustment to the Initial Projections (through the discount rate) for the current market conditions and the past performance of the business. Mr. Orr also suggested that the special committee should be considering the trading level of market comparables like LodgeNet Entertainment Corporation.

On June 17, 2003, Mr. Wargo and representatives of Credit Suisse First Boston were connected by conference telephone to a meeting held at the offices of Liberty Media in Englewood, Colorado, at the request of the special committee, among Mr. Orr of Liberty Media and Mr. Sophinos and Mr. Dvorak of On Command. The special committee had requested that Mr. Orr meet with On Command management to receive a briefing on the Initial Projections. Mr. Wargo monitored but did not otherwise participate in any aspect of the meeting. During this meeting Mr. Orr, Mr. Sophinos and Mr. Dvorak discussed the Initial Projections and the material assumptions underlying these projections. Mr. Sophinos and Mr. Dvorak noted that On Command's financial performance over the first quarter of 2003, and preliminary indications for April and May, were below forecast. Mr. Orr suggested that the special committee should talk to On Command management and compare the 2003 year-to-date financial results against the Initial Projections. Mr. Orr also expressed concerns about the status of certain potential breaches of covenants contained in On Command's existing bank facility.

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On June 19, 2003, the On Command board of directors met by conference telephone to review and discuss the status of On Command's Original Revolving Credit Facility. The board discussed the scheduled step-down, on June 30, 2003, of the leverage ratio under such facility, noting that On Command would not be in compliance with such ratio if the step-down occurred. Following such discussion, On Command's board authorized management to enter into an amendment to postpone the leverage covenant step-down until September 30, 2003, and to extend from June 30, 2003 to September 30, 2003 the deadline for closing the Amended and Restated Credit Agreement.

On June 20, 2003, Mr. Hammond and Mr. Wargo met with Mr. Orr at the offices of Liberty Media in Englewood, Colorado to discuss the 0.0787 exchange ratio proposed by Liberty Media. At this meeting, Mr. Hammond and Mr. Wargo continued to negotiate for an increase in the 0.0787 exchange ratio. In support of their position they referred to the range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the Initial Projections. Mr. Orr declined to increase the exchange ratio and reiterated the concerns he raised at the June 13 and June 17 meetings about the validity of certain material assumptions regarding the business performance of On Command on which the Initial Projections were based and about the appropriate risk adjustment (through the discount rate) used in connection with the Initial Projections. Mr. Orr also argued that Liberty Media's Series A common stock was undervalued at such time, and should accordingly be an attractive currency to On Command's public stockholders. The discussions between the special committee and Mr. Orr regarding the exchange ratio continued during a conference telephone call held on June 23, 2003. At this point, Mr. Orr informed the special committee that in order to facilitate the continued progress of the negotiations, Liberty Media needed a specific counterproposal from the special committee on the exchange ratio.

On June 23, 2003, Mr. Hammond and Mr. Wargo called Mr. Orr to inform him that the special committee's counterproposal on the exchange ratio was for an implied value of On Command common stock of \$3.00 (an exchange ratio of approximately 0.2693 based on the closing price of Liberty Media's Series A common stock on June 23, 2003).

On June 24, 2003, Mr. Orr called Mr. Wargo to inform the special committee that Liberty Media was prepared to increase the exchange ratio to 0.1600 (an implied value of \$1.80 per share of On Command common stock based on the closing price of Liberty Media's Series A common stock on June 24, 2003). Later that day, Mr. Hammond and Mr. Wargo called Mr. Orr to inform him that Credit Suisse First Boston would have difficulty getting a fairness opinion on that exchange ratio.

On June 27, 2003, On Command entered into an amendment to its Original Revolving Credit Facility to postpone until October 1, 2003 the step-down of the leverage ratio covenant of the Original Revolving Credit Facility from 4.25 to 3.50. On this date, an amendment was also made to the Amended and Restated Credit Agreement to provide that if it did not become effective earlier, and if it was not otherwise amended, the Amended and Restated Credit Agreement would terminate on September 30, 2003 (instead of June 30, 2003).

On July 2, 2003, Mr. Wargo and representatives of Credit Suisse First Boston met by conference telephone with Mr. Sophinos, Mr. Dvorak and other members of On Command management and received a presentation from management regarding the 2003 year-to-date financial performance of On Command. During this presentation On Command management confirmed, on the basis of On Command's regular quarterly review of actual to projected financial results, that On Command's actual 2003 year-to-date financial performance was substantially below the projected performance for 2003 contained in the Initial Projections, primarily as a result of reductions in the mid-week hotel occupancy rates and buy rates for certain products and programming for April and May 2003 compared to forecasted rates. Mr. Wargo and the representatives of Credit Suisse First Boston discussed these reductions with On Command management, and management delivered to the special committee and Credit Suisse First Boston a written copy of its reforecast of 2003 financial performance, which envisioned revenues and earnings before interest expense, taxes, depreciation and amortization, or EBITDA, for 2003 lower than in the Initial Projections as a result of reductions in such assumed buy and occupancy rates.

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Following the July 2, 2003 meeting, Credit Suisse First Boston revised the five-year financial model for On Command, to reflect the decline in 2003 expected financial results and changes in assumptions relating to occupancy, buy rates and other factors over the five-year period, as advised by On Command management (the July Model). Credit Suisse First Boston subsequently reviewed and discussed the July Model with On Command management, who confirmed that such changes were reasonable. Thereafter, the special committee revised its preliminary financial analysis of the proposed 0.1600 exchange ratio to reflect the July Model, including a range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the July Model. On the basis of such revised preliminary financial analysis, the special committee determined that the 0.1600 exchange ratio was below the range of valuations for On Command deemed acceptable by the special committee on the basis of the July Model.

On July 7, 2003, July 8, 2003, July 9, 2003 and July 10, 2003, Mr. Hammond, Mr. Wargo and Mr. Orr of Liberty Media met by conference telephone. During these calls Mr. Hammond and Mr. Wargo negotiated for an increase in the 0.1600 exchange ratio. In support of their position they referred to the range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the July Model. Mr. Orr declined to increase the exchange ratio beyond the previously proposed exchange ratio of 0.1600.

On July 15, 2003, Mr. Hammond and Mr. Wargo met by conference telephone with representatives of Credit Suisse First Boston and discussed the 0.1600 exchange ratio proposed by Mr. Orr. On the basis of the discussions at this meeting regarding the range of valuations of On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the July Model, the special committee decided to contact Liberty Media with a view to obtaining a higher exchange ratio than the 0.1600 proposed by Mr. Orr. Later that day, Mr. Wargo had a telephone call with Mr. Orr regarding the 0.1600 exchange ratio. This discussion was continued during a telephone call between Mr. Wargo and Mr. Orr on July 16, 2003. During these calls, Mr. Wargo continued to negotiate for an increase in the 0.1600 exchange ratio and Mr. Orr declined to increase the proposed exchange ratio.

On July 21, 2003, the On Command board of directors met by conference telephone to review and discuss the special committee's activities. Also present at the invitation of the board were Mr. Dvorak, Ms. Strauss, Ms. Markowski (for portions of the meeting) and outside counsel to On Command. The special committee reported on the progress of its negotiations with Liberty Media leading to the increase in the proposed exchange ratio from 0.0787 to 0.1600 and its preliminary financial analysis of the proposed 0.1600 exchange ratio as being below the range of valuations for On Command deemed acceptable by the special committee on the basis of the July Model. The board also discussed the pace of negotiations between the special committee and Liberty Media.

During the July 21 board meeting, Mr. Dvorak noted that On Command had entered into the Amended and Restated Credit Agreement with its lenders, but that the effectiveness of such amendment was contingent upon the receipt of a \$40 million capital infusion, on terms subordinated to the bank facility, to be used to repay principal due and permanently reduce lender commitments under the facility. Mr. Dvorak noted that On Command did not have a commitment from Liberty Media or any other party to fund the \$40 million required repayment. Members of On Command's board asked the special committee the extent, if any, to which the special committee took into consideration the status of On Command's bank credit facility in connection with the work of the committee. The members of the committee noted that On Command's leverage, credit history and capital and liquidity requirements were reflected in On Command's projected cost of capital, which was a factor in the July Model.

The On Command board of directors then discussed On Command's bank credit facility and various alternatives for raising the \$40 million required for the effectiveness of the Amended and Restated Credit Agreement, including the possibility of an institutional high-yield debt offering, a mezzanine financing, or a rights offering of common stock. Mr. Dvorak noted that, on the basis of informal indications provided to him by Credit Suisse First Boston and other investment banking contacts, and his review of publicly available information regarding other recent financings, On Command could reasonably hope to raise about \$200 million through the institutional high-yield market at an interest rate of 9% to 10% per year, for an eight to ten

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year term. On Command would then have to refinance the remaining \$66 million of its current bank debt. Such a strategy would add at least \$10 million in interest charges to On Command's annual cash expenditures. Mr. Dvorak also noted that On Command might be able to raise \$40 million in mezzanine financing, with a five to ten year balloon term, at an annual total borrowing cost of 17% to 20% per year, including a current-pay coupon in the range of 12% per year, plus warrant coverage, deferred interest or other non-cash compensation. However, this would require an amendment under the Amended and Restated Credit Agreement to, among other things, permit On Command to make cash interest payments. Following a discussion of such indicative financing terms, the directors briefly discussed some of the variables involved in structuring a possible rights offering, including: the potential price range of such an offering; the degree of dilution that would be suffered by any non-participating holders; the liquidity of any secondary market for rights, given the low trading volume of On Command common stock on the over-the-counter market; whether or not On Command would seek to have Liberty Satellite or a financial institution provide a stand-by commitment with respect to any such offering; and the cost of any such stand-by commitment to On Command. Following such discussions, a consensus was reached that the special committee should continue to negotiate with Liberty Media, to see if agreement could be reached on a transaction between On Command and Liberty Media that was acceptable to the special committee, with the understanding that, if no such agreement between On Command and Liberty Media could be reached, the directors would continue to explore one or more of the alternatives discussed at the meeting for funding the \$40 million payment required under the bank credit facility or refinancing such bank credit facility.

At the conclusion of this meeting, the special committee decided to schedule another meeting with On Command management and representatives of Liberty Media to discuss the July Model and the material assumptions on which they were based.

On July 23, 2003, the special committee met by conference telephone with representatives of Credit Suisse First Boston, Mr. Sophinos, Mr. Dvorak and On Command directors Gary S. Howard, Paul L. Gould and Kenneth G. Carroll. Ms. Strauss and Ms. Markowski were also present, as was On Command's outside counsel. At this meeting, the board members, committee members and representatives of Credit Suisse First Boston discussed the July Model and the material assumptions underlying that model. These discussions continued during a conference telephone call on July 29, 2003 among the special committee, representatives of Credit Suisse First Boston and On Command management. During these calls, Mr. Hammond and Mr. Wargo discussed the special committee's position in favor of an increase in the 0.1600 exchange ratio on the basis of the range of valuations for On Command developed by the special committee on the basis of the July Model. During the July 23, 2003 call, Mr. Gould and Mr. Howard questioned the validity of certain material assumptions on which the July Model was based. On Command management also questioned certain of such assumptions during the July 29, 2003 call, observing that On Command's financial performance continued to suffer from below-forecast occupancy and buy rates, which led On Command management to conclude that such trends were likely to be more pervasive than earlier believed. On the basis of such discussions, the special committee decided to schedule another meeting with representatives of Credit Suisse First Boston and On Command management to review the material assumptions underlying the July Model.

On August 4, 2003, Mr. Hammond and Mr. Wargo met by conference telephone with representatives of Credit Suisse First Boston and discussed the issues raised by On Command management during the July 29, 2003 conference call regarding the validity of certain material assumptions underlying the July Model. The participants in this meeting then decided to schedule a meeting with On Command management on August 8, 2003 in order to discuss these issues.

On August 8, 2003, the special committee and representatives of Credit Suisse First Boston met by conference telephone with On Command management to discuss the material assumptions underlying the July Model. These discussions continued during conference telephone calls among the same parties on August 12 and 13, 2003. During these calls, management of On Command indicated that it was concerned about further erosion in the buy rate for certain products below the assumed buy rate used in preparing the July Model, as well as the pricing of such products. Following this meeting, Credit Suisse First Boston developed a revised five-year financial model for On Command on the basis of the reduced buy rates and pricing discussed on August 8, 12 and 13, 2003, as well as certain assumptions relating to the roll-out of one of



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On Command's service platforms, in accordance with the related advice of On Command management (the August Model). Credit Suisse First Boston subsequently reviewed and discussed the August Model with On Command management, who confirmed that such changes were reasonable. On Command management has advised Credit Suisse First Boston that the financial forecasts reflected in the August Model were reasonably prepared on bases reflecting the best available estimates and judgments of On Command's management as to the future financial performance of On Command, as at the times prepared, subject to various potential risks and uncertainties that could adversely affect On Command's financial performance, including without limitation risks and uncertainties relating to On Command's access to capital, economic trends and conditions affecting the lodging industry or the U.S. economy in general, and On Command's ability to execute its operating plan. Thereafter, the special committee revised its preliminary financial analysis of the proposed 0.1600 exchange ratio prepared on the basis of the July Model, to reflect the revised assumptions reflected in the August Model. This revised preliminary financial analysis, which included a range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the August Projections, indicated to the special committee that the 0.1600 exchange ratio was still below the range of valuations for On Command deemed acceptable by the special committee on the basis of the August Model.

On August 14, 2003, Mr. Hammond and Mr. Wargo met by conference telephone with representatives of Credit Suisse First Boston and discussed the August Model, the validity of the material assumptions underlying that model and the range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the August Model. Later that day Mr. Wargo had telephone conversations with Mr. Orr and Mr. Howard regarding the 0.1600 exchange ratio proposed by Liberty Media. During the call between Mr. Wargo and Mr. Orr, Mr. Orr indicated that, as a consequence of its concerns regarding the erosion in On Command's buy rate for certain products, Liberty Media was reducing its proposed exchange ratio from 0.1600 to a proposed exchange ratio that implied a value of \$1.50 per share of On Command common stock. (Based on the \$11.01 last reported sale price of Liberty Media Series A common stock on August 13, 2003, the last trading day before that conversation, such a value of \$1.50 per share would have implied an exchange ratio of 0.1362. The last reported bid price of On Command common stock on August 13, 2003, was \$0.75 per share.) This discussion continued during a conference telephone call among the special committee, Mr. Howard and William R. Fitzgerald (a senior vice president of Liberty Media who is also a director of On Command) held on August 18, 2003. During each of these telephone calls and meetings, Mr. Hammond and Mr. Wargo supported their arguments by referring to the range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the August Model. However, Mr. Orr declined to increase the exchange ratio.

On August 21, 2003, the board of directors of On Command held a regular meeting in Denver, Colorado. Among other matters, the On Command board had a lengthy discussion regarding the status of On Command's bank credit facility and the need to raise \$40 million to close the Amended and Restated Credit Agreement. Mr. Dvorak then reviewed the financing options that had been discussed at the On Command board's July 21, 2003 meeting. Mr. Dvorak explained that a high yield offering was still feasible, but at higher rates, as result of a recent decline in the high yield debt market. However, in the period since the July 21 meeting, management had determined that mezzanine financing was not feasible. Mr. Dvorak told the On Command board that On Command's lenders were agreeable to a rights offering, provided that Liberty Satellite commit to advance \$40 million to On Command against any capital to be raised in the offering. The On Command board requested that management develop a proposal with respect to such a rights offering, including a proposal regarding the terms of any such commitment by Liberty Satellite. Mr. Dvorak also presented a financial review, advising the board that second quarter revenues were down by 1.8%, compared to the second quarter of 2002, and that EBITDA was down by 8%, reflecting lower operating margins resulting from a decline in the sale of higher margin products.

Thereafter, Mr. Hammond and Mr. Wargo continued to press the special committee's position in favor of an increase in the proposed exchange ratio, raising the matter in a conversation with Mr. Howard on August 21, 2003, following the On Command board meeting, and a telephone call between Mr. Wargo and Mr. Howard on August 26, 2003. During these conversations Mr. Hammond and Mr. Wargo continued to

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support their position by referring to the range of valuations for On Command developed by the special committee with the assistance of Credit Suisse First Boston on the basis of the August Model.

During the telephone conversation on August 26, 2003, Liberty Media offered to increase the proposed exchange ratio to a valuation of \$2.00 per share of On Command common stock. Based on the \$11.36 last reported sale price of Liberty Media Series A common stock on August 25, 2003, the last trading day before that conversation, such a value of \$2.00 per share implied an exchange ratio of 0.1761. The last reported bid price of On Command common stock on August 25, 2003, was \$0.75 per share. After a discussion with representatives of Credit Suisse First Boston regarding the increased proposed exchange ratio, Mr. Wargo called representatives of Liberty Media and requested that Liberty Media's counsel prepare and submit a draft merger agreement to Patterson Belknap and the special committee for review.

On September 3, 2003, Mr. Hammond and Mr. Wargo met by conference telephone with Patterson Belknap and discussed the terms and provisions of a draft merger agreement that had been prepared by Liberty Media's counsel. On the basis of the discussions at this meeting, the special committee decided to request certain revisions to the pricing and other terms contained in the draft merger agreement, including a provision that would adjust the proposed exchange ratio based upon changes in the value of Liberty Media's Series A common stock. During September 3, 4, 5, and 8, 2003, the special committee and its legal and financial advisors met by conference telephone with representatives of Liberty Media and its counsel to negotiate the revisions to the terms of the merger agreement, including the base exchange ratio and the adjustments thereto that are described in the section entitled "The Merger Agreement - Consideration to be Received in the Merger," on page 48. The final base exchange ratio of 0.166 was determined based on an implied valuation of \$2.00 per share of On Command common stock as compared to the average of the last reported sale price of Liberty Media Series A common stock for the five trading days ending with the third trading day prior to the execution of the merger agreement (\$12.06) (the merger agreement was executed on September 9, 2003).

On September 8, 2003, Mr. Hammond and Mr. Wargo met by conference telephone with Patterson Belknap and discussed the terms and provisions of the draft merger agreement as they had been revised in the course of the negotiations with Liberty Media. On the basis of the discussions at this meeting, the special committee determined that the merger agreement and the transactions contemplated thereby, including the merger and the exchange ratio, were fair to and in the best interests of On Command and its stockholders (other than Liberty Media and its affiliates) and resolved to recommend that the board of directors of On Command approve the merger and the merger agreement, authorize the execution and delivery of the merger agreement by On Command and submit the merger agreement to the On Command stockholders for a vote, together with the recommendation of the On Command board of directors that the stockholders approve the merger agreement.

On September 9, 2003, the board of directors of On Command held a special meeting at the offices of Liberty Media in Englewood, Colorado. All of the directors of On Command were present in person or by conference telephone and participated in this meeting. Representatives of Credit Suisse First Boston participated in this meeting by conference telephone. At the meeting, the special committee delivered its recommendation to the board of directors of On Command to approve the merger agreement and the transactions contemplated thereby, Patterson Belknap reviewed the principal terms and provisions of the merger agreement negotiated by the special committee and representatives of Credit Suisse First Boston presented its financial analysis of the proposed transaction and expressed its oral opinion, subsequently delivered in writing later that day, to the effect that, subject to and based on the assumptions and considerations set forth in its opinion, the consideration to be received by the holders of common stock of On Command (other than Liberty Media and affiliates) pursuant to the merger agreement was fair from a financial point of view to such stockholders as of the date of such opinion. On Command's board of directors reviewed a copy of the merger agreement negotiated by the special committee, which had been circulated to the board prior to the meeting, and posed questions to the special committee, Patterson Belknap and the representatives of Credit Suisse First Boston. Following these discussions, the On Command board of directors approved by unanimous vote (as well as a separate unanimous vote of Messrs. Wargo and Hammond, as disinterested directors pursuant to Section 144(a)(1) of the Delaware General Corporation

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Law) the terms of the merger agreement negotiated by the special committee in the form presented, authorized the execution and delivery of the merger agreement on behalf of On Command and the scheduling of a special meeting of the stockholders of On Command to consider and vote on the merger agreement and resolved to recommend that the stockholders approve the merger agreement.

During late August and early September 2003, counsel to Liberty Media and counsel for plaintiffs in the stockholder litigation pending before the Delaware Court of Chancery negotiated over the potential settlement of the litigation. On September 9, 2003, the parties to the litigation agreed in principle to a proposed settlement that would provide, subject to certain conditions, that Liberty Media would proceed with a merger in which the public holders of On Command common stock would receive a fraction of a share of Liberty Media Series A common stock equal to the exchange ratio, per share of On Command common stock. For additional information on the litigation, please see the section entitled *The Merger - Certain Litigation*, on page 47.

On September 30, 2003, On Command received a \$40 million subordinated loan from Liberty Media and also closed on the Amended and Restated Credit Agreement with its bank lenders.

**Purpose for the Merger; Recommendation of the Special Committee and On Command Board of Directors**

***On Command Purpose and Reasons for the Merger***

The On Command board of directors believes that because of the limited liquidity of On Command's common stock and the depressed share price of its common stock in the public market, On Command stockholders have not been able to realize the value of their investment in On Command. The Series A common stock of Liberty Media to be received by On Command stockholders in the merger will provide such stockholders with enhanced liquidity and an investment in a relatively attractive portfolio of operating businesses. Based on the closing price of Liberty Media's Series A common stock on September 8, 2003 of \$11.94, the price per share of On Command common stock implied by the exchange ratio represented a premium of approximately 186% over the closing bid price of On Command's common stock on April 1, 2003, the day before the public announcement of the initial offer by Liberty Media.

***Liberty Media Purpose and Reasons for the Merger***

Management of Liberty Media routinely reviews Liberty Media's investments in its less than wholly-owned entities to determine whether it would be advisable for Liberty Media to continue to hold, increase or dispose of any such investment. Whether a decision to increase or dispose of an investment is made, and the timing of any such decision, depends on numerous factors, including the size and nature of the investment, the perceived advantages, if any, of full or partial ownership and management control, conditions in the relevant industry and general market and economic conditions.

Since the time Liberty Media obtained its interest in On Command, management of Liberty Media has from time to time evaluated the performance of On Command and analyzed the extent to which it had achieved its business objectives as a separate publicly-held company. In reaching its decision to make the merger proposal and to enter into the merger agreement, Liberty Media considered its management's assessment of On Command's existing financial position, the market performance of the On Command common stock, industry and market conditions, and the following factors:

On Command's outstanding debt, including On Command's greater cost of borrowing as compared to Liberty Media's and On Command's historical difficulties in satisfying the leverage ratio contained in its debt agreements (as described above in the section entitled *The Merger - Background of the Merger*, on page 27);

recent capital market trends, which have adversely affected the ability of companies situated similarly to On Command to access capital;

On Command's need for additional capital to develop its business;

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the trading price volatility of the On Command common stock caused, in part, by its limited public float;

the elimination of costs associated with operating On Command as a separate public company, including costs and expenses associated with Securities and Exchange Commission reporting, communicating with stockholders and related legal and accounting fees; and

the ability to eliminate certain potential conflicts of interest between On Command and Liberty Media relating to business dealings between them.

***Recommendation of the Special Committee and the On Command Board of Directors***

At the meeting of the special committee held on September 8, 2003, the special committee:

determined that the merger agreement and the transactions contemplated thereby, including the merger and the exchange ratio, are fair to and in the best interests of On Command and its stockholders (other than Liberty Media and its affiliates);

recommended that the On Command board of directors approve the merger and the merger agreement;

recommended that the On Command board of directors authorize the execution and delivery of the merger agreement and any other documents related to the merger agreement on behalf of On Command and the consummation of the merger; and

recommended that the On Command board of directors submit the merger agreement to On Command's stockholders for a vote, along with the recommendation of the On Command board of directors that the stockholders approve such merger agreement.

At the meeting of the On Command board of directors held on September 9, 2003, the On Command board of directors, based upon the recommendation of the special committee:

determined that the merger agreement and the transactions contemplated thereby, including the merger and the exchange ratio, are advisable and in the best interests of On Command and its stockholders (other than Liberty Media and its affiliates);

authorized, adopted, approved and declared advisable the merger agreement and the transactions contemplated thereby, including the merger and the exchange ratio;

resolved to submit the merger agreement to On Command's stockholders for their approval at a meeting of the On Command stockholders;

advised and recommended that On Command's stockholders approve the merger agreement and the transactions contemplated thereby; and

authorized certain On Command officers to execute, deliver and perform the merger agreement and any related agreements and to make certain filings with the Securities and Exchange Commission related to the merger.

***The Special Committee***

In reaching the recommendations described above, the special committee considered a number of factors, including the following:

*On Command Operating and Financial Condition and Prospects.* The special committee took into account the current and historical financial condition and results of operations of On Command and its subsidiaries. The special committee also considered the future prospects if On Command continued as an independent, publicly held entity, taking into account its current financial situation and capital requirements as well as current and anticipated future trends and conditions in the general economy,

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the lodging industry and On Command's business of providing entertainment services to the lodging industry.

*On Command Projected Discounted Cash Flow.* The special committee considered the projected discounted cash flows for On Command derived from the August Model in relation to the value of the proposed exchange ratio.

*Transaction Financial Terms/Premium to Market Price.* The special committee considered the relationship of the per share consideration implied by the exchange ratio to the historical market price of shares of On Command's common stock. At the time the special committee made its decision, the implied value of the merger consideration per share of On Command common stock of \$2.00 (based on the closing price of Liberty Media's Series A common stock on September 8, 2003) represented a premium of 186% over the closing bid price per share of On Command's common stock on April 1, 2003, the day before the public announcement of Liberty Media's preliminary proposal to acquire all of On Command's outstanding common stock, a premium of 167% over the closing bid price per share of On Command's common stock one month prior to Liberty Media's announcement, and a premium of 163% over the average bid price per share of On Command's common stock over the three month period prior to Liberty Media's announcement. The special committee believed that, after extensive negotiations on its behalf with Liberty Media, it obtained the highest price per share of On Command common stock that Liberty Media is willing to pay. The special committee took into account the fact that the terms of the merger were determined through extensive negotiations between Liberty Media and On Command and its financial and legal advisors, all of whom are unaffiliated with Liberty Media. The special committee was aware that the consideration to be received by On Command's stockholders in the merger would be taxable to such stockholders for federal income tax purposes.

*Adjustment of Exchange Ratio.* The special committee considered the fact that the merger agreement provides for adjustment of the exchange ratio based upon fluctuations in the market price of Liberty Media's Series A common stock in certain circumstances. The special committee also took into account the fact that the merger agreement permits it to terminate the merger if the value of the consideration to be received by the holders of On Command common stock (other than Liberty Media and its subsidiaries) in the merger determined as provided in the merger agreement is less than \$1.90, unless Liberty Media elects to increase the exchange ratio to yield an implied value per share of On Command common stock of \$1.90.

*Lack of Active Trading Market.* The special committee considered the fact that On Command's common stock is not listed on a national securities exchange and that the trading of shares in the over-the-counter market does not constitute an active public trading market providing an efficient means for determining the value of the shares. The OTC Bulletin Board is not a securities exchange, it is merely a regulated quotation service. Therefore, the special committee took into account that it could not accurately base the valuation of On Command's common stock upon bid/asked or last-sale prices posted on such service on given days.

*Enhanced Liquidity.* The special committee considered the fact that the shares of Liberty Media Series A common stock to be received in the merger will be listed on the New York Stock Exchange and will provide the holders of On Command common stock with enhanced liquidity compared to the shares of On Command common stock. The special committee also took into consideration the diverse portfolio of operating businesses encompassed by an investment in Liberty Media Series A common stock.

*Strategic Alternatives.* The special committee considered the fact that Liberty Media and its subsidiaries currently own approximately 74% of the outstanding common stock of On Command, and approximately 80% of the overall voting power of On Command. The special committee concluded that Liberty Media's control over On Command could deter any potential acquisition of On Command by a third party, and, accordingly, that a third party acquisition was not a likely alternative.

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*Opinion of Credit Suisse First Boston.* The special committee took into account the presentation from Credit Suisse First Boston and its opinion, dated September 9, 2003, that, based upon and subject to the considerations and assumptions in its opinion, the consideration to be received by the holders of On Command common stock (other than Liberty Media and its affiliates) pursuant to the merger agreement was fair from a financial point of view to such holders as of the date of such opinion. A copy of the fairness opinion is attached hereto as **Annex III**. For information regarding the analysis conducted by Credit Suisse First Boston, see *The Merger Opinion of Credit Suisse First Boston*. On Command stockholders are urged to read the fairness opinion and the section entitled *The Merger Opinion of Credit Suisse First Boston* in their entirety.

*Appraisal Rights.* The special committee considered the fact that holders of On Command common stock who perfect their appraisal rights will have the right to dissent from the merger and to demand appraisal of the fair value of their shares under the Delaware corporate statute, as described under *Appraisal Rights of Dissenting Stockholders*.

***The On Command Board of Directors***

In reaching its determinations referred to above, the On Command board of directors considered the following factors, each of which in the view of the On Command board of directors supported such determinations:

the conclusions and recommendations of the special committee;

the factors referred to above as having been taken into account by the special committee; and

the fact that the exchange ratio and the terms and conditions of the merger agreement were the result of extensive negotiations between the special committee and Liberty Media.

The members of the On Command board of directors, including the members of the special committee, evaluated the merger in light of their knowledge of the business, financial condition and prospects of On Command and based upon the advice of financial and legal advisors.

The On Command board of directors, including the members of the special committee, believes that the merger is procedurally fair to the On Command stockholders (other than Liberty Media and its affiliates) based upon a number of factors, including:

the fact that the special committee consisted of independent directors appointed to represent the interests of On Command's stockholders (other than Liberty Media and its affiliates), and that the special committee was empowered with the exclusive authority to review, evaluate and negotiate the proposed merger;

the fact that the special committee retained and was advised by its own independent legal counsel;

the fact that the special committee retained and was advised by Credit Suisse First Boston, as its independent financial advisor, to assist it in evaluating a potential transaction with Liberty Media;

the extent and nature of the deliberations pursuant to which the special committee evaluated the merger;

the fact that the merger agreement allows the On Command board of directors, under certain circumstances, to consider an alternative transaction;

the fact that the exchange ratio resulted from extensive bargaining between representatives of the special committee on the one hand, and representatives of Liberty Media, on the other; and

the fact that the merger agreement permits On Command (upon a determination of its independent directors) to terminate the merger if the value of the consideration to be received by the holders of On Command common stock (other than Liberty Media and its subsidiaries) in the merger determined as provided in the merger agreement is less than \$1.90, unless Liberty Media elects to increase the exchange ratio to yield an implied value per share of On Command common stock of \$1.90.

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In making its decision regarding procedural fairness, the special committee also considered the fact that the merger is not conditioned upon approval by a majority of the stockholders who are unaffiliated with Liberty Media. Although the special committee, through counsel, requested such a condition, Liberty Media did not agree. The special committee nonetheless determined the transaction was fair even though it was not conditioned upon approval by a majority of the stockholders who are unaffiliated with Liberty Media because:

the special committee was advised by its legal counsel that the Delaware statutes do not impose such a majority of the minority condition in such transactions;

the absence of offers from any interested buyers during the six months from the date of Liberty Media's initial proposal through the date of this proxy statement, despite the public announcement of the proposal and the merger; and

the terms of the merger agreement permit On Command, under certain circumstances, to consider competing offers and, under certain circumstances, to terminate the merger agreement and abandon the proposed merger.

In view of the wide variety of factors considered in connection with their evaluation of the merger, neither the special committee nor the On Command board of directors found it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors they considered in reaching their determinations. The special committee and the On Command board of directors considered all the factors as a whole in reaching their respective determinations.

The foregoing discussion of the information and factors considered by the special committee and the On Command board of directors is not intended to be exhaustive but is believed to include all material factors considered by the special committee and the On Command board of directors. On Command's executive officers have not been asked to make a recommendation as to the merger.

## **Opinion of Credit Suisse First Boston**

Credit Suisse First Boston has acted as exclusive financial advisor to the special committee of the board of directors of On Command in connection with the merger. As discussed in the section entitled, "The Merger - Background of the Merger," after considering and interviewing several investment banking firms invited to make proposals, the special committee retained Credit Suisse First Boston. The special committee selected Credit Suisse First Boston based on Credit Suisse First Boston's experience, reputation and familiarity with On Command's business and the business of Liberty Media. Credit Suisse First Boston is an internationally recognized investment banking firm and is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

In connection with Credit Suisse First Boston's engagement, On Command requested that Credit Suisse First Boston evaluate the fairness, from a financial point of view, to the holders of common stock of On Command, other than Liberty Media and its affiliates, of the consideration to be received by the holders of common stock of On Command pursuant to the merger. On September 9, 2003, at a meeting of the special committee of the board of directors of On Command held to evaluate the merger, Credit Suisse First Boston delivered an oral opinion, which was subsequently confirmed in a written opinion dated September 9, 2003, to the effect that, as of that date and based on and subject to the assumptions, limitations and qualifications described in its written opinion, the consideration to be received by the holders of common stock of On Command pursuant to the merger was fair to the holders of common stock of On Command, other than Liberty Media and its affiliates, from a financial point of view.

The full text of Credit Suisse First Boston's written opinion, dated September 9, 2003, to the special committee of the board of directors of On Command, which sets forth, among other things, the procedures followed, assumptions made, matters considered and limitations on the review undertaken, is attached as **Annex III** to this proxy statement/prospectus. Holders of On Command common stock are urged to read this opinion in its entirety. Credit Suisse First Boston's opinion is addressed to the special committee of the board

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of directors of On Command and relates only to the fairness, from a financial point of view, to the holders of common stock of On Command, other than Liberty Media and its affiliates, of the consideration to be received by the holders of common stock of On Command pursuant to the merger. Credit Suisse First Boston's opinion does not constitute a recommendation to any stockholder of On Command as to how such stockholder should vote or act on any matter relating to the merger. The summary of Credit Suisse First Boston's opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of Credit Suisse First Boston's opinion.

In arriving at its opinion, Credit Suisse First Boston:

reviewed the merger agreement;

reviewed publicly available business and financial information relating to On Command and Liberty Media;

reviewed other information, including financial forecasts, provided to or discussed with it by the management of On Command and, to a lesser degree, information, not including financial forecasts, provided to or discussed with it by the management of Liberty Media;

met with the management of On Command and, to a lesser degree, Liberty Media to discuss the business and prospects of On Command and Liberty Media, respectively;

considered financial and stock market data of On Command and Liberty Media and compared those data with similar data for other publicly held companies in businesses it deemed similar to On Command and Liberty Media;

considered, to the extent publicly available, the financial terms of other business combinations and other transactions that have recently been effected; and

considered such other information, financial studies, analyses and investigations and financial, economic and market criteria that it deemed relevant.

In connection with its review, Credit Suisse First Boston did not assume any responsibility for independent verification of any of the information provided to or otherwise reviewed by it and relied on that information being complete and accurate in all material respects. With respect to the financial forecasts relating to On Command, Credit Suisse First Boston was advised and assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of On Command's management as to the future financial performance of On Command. With respect to the financial forecasts relating to Liberty Media, Credit Suisse First Boston assumed, with the special committee's consent, that the financial forecasts contained in publicly available analyst reports with respect to Liberty Media reviewed by it represent reasonable estimates and judgments with respect to the future financial performance of Liberty Media. Credit Suisse First Boston also assumed, with the special committee's consent, that in the course of obtaining necessary regulatory and third party approvals and consents for the merger, no modification, delay, limitation, restriction or condition will be imposed that will have an adverse effect on On Command or Liberty Media or the contemplated benefits of the merger and that the merger will be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement contained in the merger agreement. In addition, Credit Suisse First Boston was advised that Liberty Media and its subsidiaries owned approximately 74% of the On Command common stock.

Credit Suisse First Boston was not requested to make, and did not make, an independent evaluation or appraisal of the assets or liabilities, contingent or otherwise, of On Command or Liberty Media, nor was Credit Suisse First Boston furnished with any such evaluations or appraisals. Credit Suisse First Boston's opinion was necessarily based upon information available to it and financial, economic, market and other conditions as they existed and could be evaluated on the date of the opinion. Credit Suisse First Boston was not requested to, nor did it, solicit third party indications of interest in acquiring all or any part of On Command. Credit Suisse First Boston did not express any opinion as to what the value of Liberty Media common stock actually would be when issued in the merger or the prices at which Liberty Media common stock would trade at any time. The



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Credit Suisse First Boston opinion does not address the relative merits of the merger as compared to other transactions, business strategies or financial alternatives that might be available to On Command, nor does it address the underlying business decision of On Command to proceed with the merger.

Although Credit Suisse First Boston evaluated the consideration to be received by the holders of common stock of On Command, other than Liberty Media and its affiliates, pursuant to the merger from a financial point of view, Credit Suisse First Boston was not requested to, and did not, recommend the specific consideration payable in the merger, which consideration was determined in arms length negotiations between On Command and Liberty Media. No other limitations were imposed on Credit Suisse First Boston by On Command, its affiliates or the special committee of its board of directors with respect to the investigations made or procedures followed in rendering its opinion.

In preparing its opinion to the special committee of the board of directors of On Command, Credit Suisse First Boston performed a variety of financial and comparative analyses, including those described below. The preparation of a fairness opinion is a complex process and is not readily susceptible to partial analysis or summary description. Accordingly, Credit Suisse First Boston believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors, or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

No company, transaction or business used in Credit Suisse First Boston's analyses as a comparison is directly comparable to On Command, Liberty Media or the proposed merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the merger or the other values of the companies, business segments or transactions being analyzed.

The estimates contained in Credit Suisse First Boston's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. The analyses do not purport to be appraisals or to reflect the prices at which businesses actually may be sold.

Credit Suisse First Boston's opinion and financial analyses were among many factors considered by the special committee of the board of directors of On Command in its evaluation of the proposed merger and should not be viewed as determinative of the views of the special committee of the board of directors of On Command or the managements of On Command or Liberty Media with respect to the merger or the consideration to be received by the holders of common stock of On Command pursuant to the merger.

***Summary of Financial Analyses.***

The following is a summary of the material financial analyses underlying Credit Suisse First Boston's opinion dated September 9, 2003 delivered to the special committee of the board of directors of On Command in connection with the merger. The financial analyses summarized below include information presented in tabular format. In order to fully understand Credit Suisse First Boston's financial analyses, the tables must be read together with the text of each summary. Considering the data set forth in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Credit Suisse First Boston's financial analyses.

*Common Stock Trading History.* Credit Suisse First Boston examined the historical closing prices (and the closing bid prices after the On Command common stock was delisted from the Nasdaq National Market) of On Command common stock from September 4, 2002 to September 4, 2003. During this time period, On Command common stock reached a high of \$1.30 per share and a low of \$0.30 per share. Credit Suisse First Boston also examined the historical closing prices of Liberty Media common stock from September 4, 2002 to September 4, 2003. During this time period, Liberty Media common stock reached a high of \$12.20 per share and a low of \$6.29 per share.

*Comparable Publicly Traded Company Analysis.* Credit Suisse First Boston analyzed the market values and trading multiples of selected publicly traded companies in the in room entertainment and

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information services industry that Credit Suisse First Boston believed were reasonably comparable to On Command. These comparable companies consisted of:

LodgeNet Entertainment Corporation; and

SeaChange International, Inc.

In examining these comparable companies, Credit Suisse First Boston calculated the enterprise value of each company as a multiple of its respective: (i) last twelve-month period for which financial data for the company at issue has been reported, or LTM, revenue and projected calendar year 2003 and 2004 revenue and (ii) LTM earnings before interest expense, taxes, depreciation and amortization, or EBITDA, and projected calendar year 2003 and 2004 EBITDA. The enterprise value of a company is equal to the value of its fully-diluted common equity plus debt and the liquidation value of outstanding preferred stock, if any, minus cash and the value of certain other assets, including minority interests in other entities. Credit Suisse First Boston also calculated the enterprise value of each company as a multiple of its respective number of rooms carrying its service. All historical data was derived from publicly available sources and all projected data was obtained from Wall Street research reports where available.

Based on an analysis of this data and On Command's projected results for comparable periods, Credit Suisse First Boston estimated a value per share of On Command common stock ranging from \$0.00 to \$2.42, compared to the proposed value, subject to change as provided for in the merger agreement, of \$1.90 to \$2.10 per share of On Command common stock to be received in the merger based on the average closing price of the Liberty Media common stock during the five trading days ending on the third trading day prior to the closing of the merger.

*Premiums Paid Analysis.* Credit Suisse First Boston determined the premium over the common stock trading prices for one day, one week and four weeks prior to the announcement date in all squeeze-out transactions of U.S. public companies in which at least 50% of the target was owned prior to the transaction and 90% of the target was owned after the transaction and was announced and completed between January 1, 2000 and August 19, 2003. Credit Suisse First Boston obtained the premiums for these transactions from Securities Data Company. The median premiums for the selected transactions over the common stock trading prices were as follows:

Time Period Prior to Announcement	Premium
One Day	21.4%
One Week	32.5%
Four Weeks	32.5%

Applying the above premiums to the closing price of On Command common stock on comparable days, Credit Suisse First Boston estimated a value per share of On Command common stock ranging from \$0.85 to \$1.09 compared to the proposed value, subject to change as provided for in the merger agreement, of \$1.90 to \$2.10 per share of On Command common stock to be received in the merger based on the average closing price of the Liberty Media common stock for the five trading days ending on the third trading day prior to the closing of the merger.

*Discounted Cash Flow Analysis.* Credit Suisse First Boston performed a discounted cash flow, or DCF, analysis of the projected cash flows of On Command for the fiscal years ending December 31, 2003 through December 31, 2007, using projections and assumptions provided by the management of On Command. The DCFs for On Command were estimated by using discount rates ranging from 12.5% to 13.5%, based on estimates related to the weighted average costs of capital of On Command, and terminal multiples of estimated EBITDA for On Command's LTM ending June 30, 2003 ranging from 5.0x to 6.0x. In addition, Credit Suisse First Boston valued the residual values of the net operating losses by assuming 1% pretax income growth after 2007. Based on this analysis, Credit Suisse First Boston estimated a value per share of On Command common stock ranging from \$1.77 to \$4.20 compared to the proposed value, subject to change as provided for in the merger agreement, of \$1.90 to \$2.10 per share of On Command common stock to be

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received in the merger based on the average closing price of the Liberty Media common stock for the five trading days ending on the third trading day prior to the closing of the merger.

*Miscellaneous.* Credit Suisse First Boston's opinion to the special committee of the board of directors of On Command was one of many factors taken into consideration by the special committee of the board of directors in making its determination to recommend that the board of directors engage in the merger. Consequently, the analyses described above should not be viewed as determinative of the opinion of the special committee of the board of directors of On Command or the management of On Command with respect to the value of On Command or whether the special committee of the board of directors of On Command would have been willing to agree to different consideration.

On Command has agreed to pay Credit Suisse First Boston a fee that is customary for transactions of this nature, a portion of which is contingent on the consummation of the merger. On Command also has agreed to reimburse Credit Suisse First Boston for its out-of-pocket expenses, including fees and expenses of legal counsel and any other advisor retained by Credit Suisse First Boston, and to indemnify Credit Suisse First Boston and related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

Credit Suisse First Boston and its affiliates have in the past provided, and in the future may provide, investment banking and financial services to On Command and Liberty Media unrelated to the proposed merger, for which services Credit Suisse First Boston and its affiliates have received and would expect to receive compensation. In addition, certain funds affiliated or associated with Credit Suisse First Boston own in the aggregate approximately 2.26 million shares of On Command common stock. In the ordinary course of business, Credit Suisse First Boston and its affiliates may actively trade the debt and equity securities of On Command and Liberty Media for their own accounts and for the accounts of customers and, accordingly, may at any time hold long or short positions in those securities.

**Interests of Directors and Officers**

Certain directors and officers of On Command have one or more of the following interests that may be deemed to be different from, or in addition to, the interests of On Command stockholders generally. In the case of directors of On Command, the following interests presented actual or potential conflicts of interest in determining the exchange ratio and the other terms of the merger:

ownership of shares of Liberty Media common stock;

ownership of options convertible into shares of Liberty Media common stock; and

indemnification arrangements between On Command and the On Command directors and officers.

Officers and directors of Liberty Media, ONCO Acquisition Co. and/or On Command who own shares of On Command common stock (including restricted stock) at the effective time of the merger will receive shares of Liberty Media Series A common stock on the same terms as the On Command public stockholders (except that any shares of restricted stock will remain subject to the same restrictions in place prior to the merger). Officers and directors of Liberty Media, ONCO Acquisition Co. and/or On Command who own options with respect to shares of On Command common stock at the effective time of the merger will have these interests converted by Liberty Media on the same basis as any other outstanding stock options for On Command common stock. Converted stock options will be exercisable with respect to the number of shares of Liberty Media Series A common stock determined by multiplying the number of underlying shares of On Command common stock by the exchange ratio in the merger, with an inverse and proportionate adjustment to the exercise price per share.

The following table identifies those directors and executive officers of On Command who are directors or officers of Liberty Media or its affiliates (other than On Command and its controlled affiliates) and the positions held by such individuals with Liberty Media, On Command and the consolidated subsidiaries of Liberty Media that are public companies. Messrs. Carroll, Fitzgerald, Howard and Sophinos do not receive any compensation for their services as members of On Command's board of directors (except for the

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reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at board of director meetings).

Name	Affiliated Entity	Position(s) Held
Kenneth G. Carroll	Liberty Satellite On Command	President, Chief Financial Officer and Treasurer Director
William R. Fitzgerald	Liberty Media On Command	Senior Vice President Director
Paul A. Gould	Liberty Media On Command	Director Director
Gary S. Howard	Liberty Media	Executive Vice President, Chief Operating Officer, Director
Christopher Sophinos	Liberty Satellite On Command	Director and Chairman of the Board Director and Chairman of the Board
Pamela J. Strauss	Liberty Satellite On Command	Senior Vice President President, Chief Executive Officer, Director
J. David Wargo	OpenTV Corp. On Command	General Counsel and Secretary Senior Vice President, General Counsel and Secretary Director Director

*Indemnification.* Please see the section entitled "The Merger Agreement - Indemnification" for a description of certain indemnification rights that the merger agreement provides to present and former directors and officers of On Command and any of its subsidiaries (when acting in such capacity), and any person who is or was serving at the request of On Command as a director or officer of another entity (when acting in such capacity).

**Accounting Treatment**

The merger will be accounted as a purchase of a minority interest, as this term is used under accounting principles generally accepted in the United States of America, for accounting and financial reporting purposes. Accordingly, the consideration paid for the acquired On Command shares will be allocated to the assets and liabilities of On Command based on their respective fair values.

**Material U.S. Federal Income Tax Consequences**

*General.* The following discussion summarizes the material U.S. federal income tax consequences of the merger that are applicable to holders of On Command common stock. It is not a complete analysis of all potential tax effects relevant to the merger. This discussion assumes that you hold your shares of On Command common stock as capital assets within the meaning of Section 1221 of the Internal Revenue Code.

This discussion does not address the tax consequences that may be relevant to a particular On Command stockholder subject to special treatment under U.S. federal income tax laws, such as dealers in securities, banks, insurance companies, financial institutions, partnerships or other pass-through entities, tax-exempt organizations, non-U.S. persons, stockholders who acquired their shares of On Command common stock pursuant to the exercise of options or otherwise as compensation, or stockholders who hold their stock as part of a hedge, constructive sale, wash sale, straddle or conversion transaction, nor does the discussion address any consequences arising under the laws of any state, local or foreign jurisdiction or the application of the U.S. federal estate and gift tax or the alternative minimum tax. Moreover, the tax consequences to holders of

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On Command options and warrants are not discussed. The discussion is based on and subject to the Internal Revenue Code of 1986, as amended, Treasury regulations thereunder, and administrative rulings and court decisions as of the date hereof. All of the foregoing are subject to change, which may be retroactive, and any such change could affect the continuing validity of this discussion. We urge you to consult your own tax advisors concerning the U.S. federal, state and local and foreign tax consequences of the merger to you.

### ***Tax Consequences to On Command Common Stockholders.***

The merger will be treated for tax purposes as a taxable sale or exchange of On Command shares for shares of Liberty Media Series A common stock and for cash in lieu of fractional shares, if applicable. On Command stockholders will have taxable gain or loss equal to the difference between their aggregate basis for their On Command shares surrendered in the merger and the sum of the amount of cash and the fair market value of the Liberty Media Series A common stock they receive in the merger. The gain or loss will be capital if they held their shares of On Command stock as capital assets and would be long term gain or loss if they held their shares of On Command common stock for more than a year as of the date of the merger. Long term capital gains of individuals are generally taxed at more favorable tax rates than other types of income or gain. Capital losses are generally deductible only against capital gains, plus, in the case of individuals, \$3,000 each year.

Your aggregate adjusted basis in the Liberty Media Series A common stock received in the merger generally will be equal to the fair market value of such stock as of the date of the merger. Your holding period in the Liberty Media Series A common stock received in the merger will begin on the day after the date of the merger.

### ***Consequences to the Corporations***

The corporations that are parties to the merger will recognize no gain or loss in the merger. The merger will be treated as a taxable purchase of the stock of On Command. Such a transaction results in gain or loss recognition for the On Command stockholders, but no gain or loss recognition for the corporations.

**The foregoing is a general discussion of the material United States federal income tax consequences of the merger and is included for general information only. The foregoing discussion does not take into account the particular facts and circumstances of your status and attributes. As a result, the United States federal income tax consequences addressed in the foregoing discussion may not apply to you. In view of the individual nature of income tax consequences, you are urged to consult your own tax advisor to determine the specific tax consequences of the merger to you, including the application and effect of United States federal, state, local and other tax laws and the possible effects of changes in United States federal and other tax laws.**

## **Deregistration of On Command Common Stock after the Merger**

If the merger is completed, On Command common stock will be deregistered under the Securities Exchange Act of 1934 and will no longer be eligible for quotation on the OTC Bulletin Board.

## **Liberty Satellite/ Liberty Media Merger**

Liberty Media has also entered into a merger agreement with Liberty Satellite, pursuant to which Liberty Media would acquire all of the publicly held common stock of Liberty Satellite that it does not already beneficially own. In this separate merger transaction, unaffiliated holders of Liberty Satellite common stock will receive 0.2750 of a share of Series A common stock of Liberty Media in exchange for each share of Liberty Satellite common stock that they own. This exchange ratio has been fixed and will not be adjusted for changes in the price of Liberty Media's or Liberty Satellite's common stock. In connection with the Liberty Satellite/ Liberty Media merger, a total of approximately 1,893,726 shares of Liberty Media Series A common stock will be issued or issuable in exchange for outstanding shares of Liberty Satellite common stock and upon exercise of options or other rights to acquire shares of Liberty Satellite common stock outstanding at the time of the merger. The obligations of the parties to complete each of the two respective mergers will not be contingent upon the completion of the other merger.

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**Certain Litigation**

Shortly after On Command's announcement on April 2, 2003 of Liberty Media's initial merger proposal, a putative class action lawsuit was filed on behalf of On Command stockholders in the Court of Chancery of the State of Delaware (the Delaware Court) against Liberty Media, On Command and members of the board of directors of On Command (the Class Action Lawsuit). The complaint alleges, among other things, that the defendants breached fiduciary and other duties in connection with Liberty Media's proposal to acquire ownership of all issued and outstanding shares of On Command common stock. The complaint seeks a court order enjoining the proposed transaction, an award of unspecified damages and attorneys' fees, the unwinding of any transaction consummated and various other equitable relief.

Following settlement discussions between plaintiffs' counsel and counsel for Liberty Media during late August and early September, the parties to the pending stockholder litigation agreed on and executed a memorandum of understanding on September 9, 2003 to reflect a proposed settlement of the litigation. The parties also agreed, subject to the conditions described below, to enter into a settlement agreement, cooperate in public disclosures related to the settlement and use best efforts to gain approval of the settlement by the Delaware courts. Without any admission of fault by the defendants, the memorandum of understanding contemplates a dismissal of all claims with prejudice and a release in favor of all defendants of any and all claims related to the proposed transaction that have been or could have been asserted by the plaintiffs or any members of the purported class consisting of all record and beneficial holders of On Command common stock from April 2, 2003 through the completion of the merger. These dismissed claims are referred to in this proxy statement/ prospectus as the settled claims.

The proposed settlement is subject to numerous conditions, including the completion of confirmatory discovery, execution of a settlement agreement, a determination by Liberty Media that the dismissal of the litigation in accordance with the settlement agreement will result in the final release with prejudice of the settled claims, final approval of the settlement by the Delaware courts and completion of the merger. Because the proposed settlement is subject to consummation of the merger and other conditions described above, any settlement will not be final at the time you will be asked to vote on the merger.

If the parties to the litigation do not proceed with the proposed settlement, or in the event that the proposed settlement ultimately is not approved by the Delaware courts, the litigation could proceed and plaintiffs could seek the relief sought in their complaints, including rescission of the merger or an award of damages in favor of On Command stockholders in any plaintiff class that might be certified.

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**THE MERGER AGREEMENT**

The following description of the merger agreement is qualified in its entirety by reference to the complete text of the merger agreement, which is incorporated by reference herein and a copy of which is annexed to this proxy statement/ prospectus as **Annex I**.

**General Structure; Effective Time**

The merger agreement provides that, upon the terms and subject to the conditions of the merger agreement, ONCO Acquisition Co. will merge with and into On Command, with On Command being the surviving corporation. In the merger, which will become effective on the date and at the time that a certificate of merger is accepted for filing by the Delaware Secretary of State in accordance with the applicable provisions of the Delaware corporate statute (or such later date and time as may be agreed to by Liberty Media and On Command and specified in the certificate of merger), stockholders of On Command will receive the consideration described below under Consideration to be Received in the Merger. The effective time of the merger will occur as soon as practicable after the last of the conditions described under Conditions to the Merger below, has been satisfied or waived by Liberty Media or On Command, as applicable. We expect the merger to become effective as soon as practicable following the special meeting of stockholders. However, because the merger is subject to certain conditions, the merger may occur on any date thereafter, or not at all.

As a result of the merger, Liberty Media will acquire all of the common stock of On Command that is not already beneficially owned by ONCO Acquisition Co., Liberty Media and its wholly-owned subsidiaries or Liberty Satellite and its wholly-owned subsidiaries. The merger agreement provides that:

the On Command certificate of incorporation will remain as the certificate of incorporation of On Command after the merger until thereafter amended in accordance with the terms thereof and the Delaware corporate statute;

On Command's bylaws will remain as the bylaws of On Command after the merger until thereafter amended in accordance with the terms thereof, the certificate of incorporation of On Command and the Delaware corporate statute; and

the parties will take appropriate action to ensure that the directors of ONCO Acquisition Co. and the officers of On Command at the effective time of the merger will, from and after the effective time of the merger, be the directors and officers of On Command after the merger until their respective successors are duly elected or appointed and qualified in accordance with the certificate of incorporation and bylaws of On Command, or as otherwise provided by applicable law.

**Consideration to be Received in the Merger**

*Liberty Media Series A Common Stock.* At the effective time of the merger, each holder of shares of On Command common stock (other than Liberty Media, ONCO Acquisition Co., Liberty Satellite, wholly-owned subsidiaries of Liberty Media and Liberty Satellite, and shares held in treasury of On Command) who has not properly exercised appraisal rights, will be entitled to receive a fraction of a share of Liberty Media Series A common stock for each share of On Command common stock held immediately prior to the merger equal to the exchange ratio described under Exchange Ratio below. Liberty Media will not issue fractional shares of Liberty Media Series A common stock in the merger. Instead, if any holder of On Command common stock would be entitled to receive a number of shares of Liberty Media Series A common stock that includes a fraction, then in lieu of a fractional share, the stockholder will be entitled to receive cash in an amount determined by multiplying the fraction by the current market value of a whole share of Liberty Media Series A common stock and rounding the product to the nearest whole cent. The current market value of a share of Liberty Media Series A common stock means, for this purpose, the average of the last reported sale prices of a share of Liberty Media Series A common stock on the New York Stock Exchange for the period of five consecutive trading days prior to the last full trading day preceding the closing date of the merger.

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*Exchange Ratio.* The exchange ratio is 0.166 of a share of Series A common stock of Liberty Media for each share of On Command common stock subject to certain adjustments described below based on the trading price of Liberty Media Series A common stock. If the implied value of the exchange ratio in the merger is less than \$1.90 or more than \$2.10 per share of On Command common stock, based on the average closing price of the Liberty Media Series A common stock for the five trading days ending on the third trading day prior to the closing of the merger, then the exchange ratio will be adjusted upward or downward, as applicable, to yield an implied value of \$1.90 or \$2.10 per share, respectively, based on such average closing price. However, if the average closing price of Liberty Media Series A common stock over such period is less than \$10.00 per share, the exchange ratio will be capped at 0.190, subject to (i) the right of On Command to terminate the merger agreement and abandon the merger, if the exchange ratio is so capped, and (ii) the right of Liberty Media to increase the exchange ratio above 0.190, to yield an implied value of \$1.90 per share of On Command common stock, in which case the merger agreement will not be terminated and the merger will be consummated at such increased exchange ratio. Any decision of the On Command board of directors to terminate the merger agreement as described above would be made by vote of the On Command independent directors. If the average closing price of Liberty Media Series A common stock over the relevant period is less than \$10.00 per share and On Command does not elect to terminate the merger agreement, or if the price of Liberty Media Series A common stock on the closing date of the merger is less than the average price used to calculate any adjustment to the exchange ratio under the merger agreement, then on the closing date the Liberty Media Series A common stock you receive in the merger could be worth less than \$1.90 per share of On Command common stock converted in the merger.

By way of illustration, the following table provides examples of the exchange ratio calculated at various hypothetical average closing prices of a Liberty Media Series A common share over a five trading day period and the corresponding implied value of the merger consideration per share of On Command common stock. The table below assumes that the On Command independent directors do not elect to terminate the merger agreement if the five-day average used to calculate the exchange ratio is less than \$10.00 per share.

Five-Day Average	Exchange Ratio	Implied Value
\$9.00(1)	0.190	\$ 1.71
\$9.50(2)	0.190	\$ 1.81
\$10.00	0.190	\$ 1.90
\$11.00	0.173	\$ 1.90
\$11.45	0.166	\$ 1.90
\$12.00	0.166	\$ 1.99
\$12.65	0.166	\$ 2.10
\$14.00	0.150	\$ 2.10

- (1) If the On Command independent directors did elect to terminate the merger agreement because the five-day average is less than \$10.00 per share, then Liberty Media, in its sole discretion, could elect to increase the exchange ratio to 0.211, which would yield an implied value of \$1.90 per share.
- (2) If the On Command independent directors did elect to terminate the merger agreement because the five-day average is less than \$10.00 per share, then Liberty Media, in its sole discretion, could elect to increase the exchange ratio to 0.200, which would yield an implied value of \$1.90 per share.

*Treatment of On Command Stock Options and Restricted Stock.* On Command's outstanding stock options issued under the Amended and Restated On Command 1996 Key Employee Stock Option Plan and the Amended and Restated On Command 1997 Non-Employee Directors Stock Plan, as amended, and other stock options not issued under that plan, will each be converted into rights to acquire Liberty Media Series A common stock. Converted stock options will be exercisable with respect to the number of shares of Liberty Media Series A common stock determined by multiplying the number of underlying shares of On Command common stock on the effective date of the merger by the exchange ratio, rounded up to the nearest whole share. The exercise price per share of Liberty Media Series A common stock issuable under each converted stock option will be calculated by dividing the exercise price of the option before the merger by the exchange



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ratio, rounded down to the nearest whole cent. It is a condition to the obligations of Liberty Media under the merger agreement that the On Command board of directors adopt a resolution stating that the transactions contemplated by the merger agreement do not constitute a change of control under provisions applicable to options to purchase On Command common stock.

In addition, each restricted share of On Command common stock issued under or outside of the On Command plans will be converted into restricted shares of Liberty Media Series A common stock at the exchange ratio, rounded up to the nearest whole share. Each restricted share of Liberty Media Series A common stock issued to holders of On Command restricted stock will remain subject to the same restrictions applicable to such share prior to the merger.

*Effect of the Merger on On Command Preferred Stock.* All shares of On Command Series A, B, C and D preferred stock that are issued and outstanding immediately prior to the merger will remain outstanding after the merger, except for any shares of Series A preferred stock held by those stockholders who exercise their statutory dissenters' rights of appraisal. All outstanding shares of Series A preferred stock are currently held by the former Chairman of the Board and Chief Executive Officer of On Command, Jerome H. Kern, who is also a director of Liberty Media. All outstanding shares of Series B, C and D preferred stock are currently held by Ascent Entertainment Group, Inc., a wholly owned subsidiary of Liberty Satellite. The Liberty Satellite board of directors has authorized Liberty Satellite to waive any dissenters' rights of appraisal that it has with respect to the On Command Series B, C and D preferred stock that it beneficially owns. Liberty Satellite is not subject to any binding agreement to waive its dissenters' rights of appraisal, and there can be no assurance that the board of directors of Liberty Satellite will not revoke such authorization prior to the special meeting. The terms of On Command's Series A preferred stock provide that, after the merger, each share of Series A preferred stock will no longer be convertible into 100 shares of On Command common stock, but instead will be convertible into the number of shares of Liberty Media Series A common stock equal to 100 multiplied by the exchange ratio. After the merger, each share of On Command Series D preferred stock will continue to be convertible into On Command common stock. For additional information on the On Command preferred stock, please see the section entitled "Comparison of Stockholder Rights," on page 58.

*ONCO Acquisition Co. Capital Stock.* At the effective time of the merger, the shares of capital stock of ONCO Acquisition Co. outstanding immediately prior to the effective time of the merger will be converted into a number of shares of common stock of On Command (as the surviving corporation in the merger) equal to the number of shares of On Command common stock which are exchanged for Liberty Media Series A common stock plus the number of shares of On Command's common stock and Series A preferred stock (as if such shares were converted into On Command common stock immediately prior to the effective time of the merger) held by those stockholders who exercise their statutory dissenters' rights of appraisal. As a result, Liberty Media will acquire all of the common stock of On Command that is not beneficially owned by Liberty Media and its subsidiaries, including Liberty Satellite.

*On Command Common Stock Held by Liberty Satellite.* At the effective time of the merger, each share of common stock of On Command owned by Liberty Satellite or any wholly-owned subsidiary of Liberty Satellite will remain as an issued and outstanding share of common stock of On Command, as the surviving corporation.

*Certain Adjustments.* If, prior to the effective time of the merger, the Liberty Media Series A common stock is recapitalized or reclassified or Liberty Media effects any stock dividend, stock split, or reverse stock split of Liberty Media Series A common stock or otherwise effects any transaction that changes the Liberty Media Series A common stock into any other securities (including securities of another corporation), then the shares of Liberty Media Series A common stock to be delivered in the merger to the holders of On Command common stock will be appropriately and equitably adjusted to the kind and amount of shares of stock and other securities and property that the holders of the shares of Liberty Media Series A common stock would have been entitled to receive had the shares been issued and outstanding as of the record date for determining stockholders entitled to participate in such corporate event.

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*Exchange of Shares.* Promptly after the effective time of the merger, transmittal letters will be mailed to each holder of record of shares of On Command common stock to be used in forwarding his or her certificates evidencing such shares for surrender and exchange for certificates evidencing the shares of Liberty Media Series A common stock to which he or she has become entitled and, if applicable, cash in lieu of a fractional share of Liberty Media Series A common stock. After receipt of this transmittal letter, each holder of certificates formerly representing On Command common stock should surrender such certificates to the exchange agent designated in the transmittal letter, and each such holder will receive in exchange therefor certificates evidencing the number of whole shares of Liberty Media Series A common stock to which he or she is entitled and a check for any cash that may be payable in lieu of a fractional share of Liberty Media Series A common stock. These transmittal letters will be accompanied by instructions specifying other details of the exchange.

**Stockholders should not send in their certificates until they receive a transmittal letter.**

After the effective time of the merger, except for holders of On Command common stock who exercise their statutory dissenters' rights of appraisal, each certificate evidencing On Command common stock (other than certificates evidencing shares held directly by On Command in its treasury or shares owned of record by ONCO Acquisition Co., Liberty Media, Liberty Satellite or any wholly-owned subsidiary of Liberty Media or Liberty Satellite), until so surrendered and exchanged, will be deemed, for all purposes, to evidence only the right to receive the number of shares of Liberty Media Series A common stock that the holder of the certificate is entitled to receive and the right to receive any cash payment in lieu of a fractional share of Liberty Media Series A common stock. The holder of the unexchanged certificate will not be entitled to receive any dividends or other distributions payable by Liberty Media until the certificate is surrendered. Subject to applicable laws, these dividends and distributions, if any, will be accumulated and, at the time of the surrender, all such unpaid dividends and distributions, together with any cash payment in lieu of a fractional share of Liberty Media Series A common stock, will be paid, without interest.

**Regulatory Approvals; Conditions to the Merger.**

*Regulatory Approvals.* We are not aware of any material regulatory requirements applicable to the merger under any U.S. state or federal law or regulation, other than any requirements under applicable federal and state securities laws and regulations and Delaware corporate law.

*Conditions of all Parties.* The respective obligations of On Command, Liberty Media and ONCO Acquisition Co. to consummate the transactions contemplated by the merger agreement are subject to the satisfaction or, where permissible, waiver of the following conditions:

adoption of the merger agreement and approval of the merger by the requisite vote of the stockholders of On Command at the special meeting;

effective registration under the Securities Act of 1933 of the shares of Liberty Media Series A common stock to be issued in connection with the merger and receipt of all state securities law permits and authorizations necessary to carry out the transactions contemplated by the merger agreement; and

the absence of any effective permanent or preliminary injunction or similar order issued by a court or other governmental entity of competent jurisdiction preventing consummation of the transactions contemplated by the merger agreement as provided therein or permitting such consummation only subject to any condition or restriction that has or would have a material adverse effect on On Command.

*Conditions of Liberty Media and ONCO Acquisition Co..* The obligations of Liberty Media and ONCO Acquisition Co. to consummate the transactions contemplated by the merger agreement are also subject to the satisfaction or waiver of the following conditions:

the material accuracy of the representations and warranties and the performance, in all material respects, of the obligations, agreements and covenants made by On Command in the merger agreement;

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receipt of certain closing certificates from On Command;

no action having been taken, nor any statute, rule, regulation, order, judgment or decree proposed, enacted, issued, enforced or deemed applicable by any foreign or United States federal, state or local governmental entity, and the absence of any pending or threatened action, suit or proceeding, that (i) makes or may make the transactions contemplated by the merger agreement illegal or imposes or may impose material damages or penalties in connection therewith, (ii) requires or may require the divestiture of a material portion of the business of Liberty Media or any of its subsidiaries, (iii) imposes or may impose material limitations on the ability of Liberty Media effectively to exercise full rights of ownership of shares of capital stock of On Command or makes the holding by Liberty Media of any such shares illegal or subject to any materially burdensome requirement or condition, (iv) requires or may require Liberty Media, On Command or any of their respective material subsidiaries or affiliates to refrain from engaging in any material business if the merger is consummated, or (v) materially increases Liberty Media's liabilities or obligations arising out of the merger agreement, the merger, or any transactions contemplated in connection therewith;

receipt of all material governmental and applicable third party consents, approvals and authorizations;

a material adverse effect on the business, properties, operations, or financial condition of On Command and its subsidiaries taken as a whole or on On Command's ability to consummate the merger, shall not have occurred since the date of the merger agreement; and

adoption of a resolution by On Command stating that the transactions contemplated by the merger agreement do not constitute a change of control under provisions applicable to options to purchase On Command common stock.

*Conditions of On Command.* The obligation of On Command to consummate the transactions contemplated by the merger agreement is also subject to the satisfaction or waiver of the following conditions:

the material accuracy of the representations and warranties and the performance, in all material respects, of the obligations, agreements and covenants made by Liberty Media and ONCO Acquisition Co. in the merger agreement;

receipt of certain closing certificates from Liberty Media;

no action having been taken, nor any statute, rule, regulation, order, judgment or decree proposed, enacted, issued, enforced or deemed applicable by any foreign or United States federal, state or local governmental entity, and the absence of any pending or threatened action, suit or proceeding, that (i) makes or may make the merger agreement, the merger or any of the other transactions contemplated by the merger agreement illegal or may impose material damages or penalties in connection therewith, or (ii) has or, in the reasonable judgment of On Command, assuming consummation of the merger, is reasonably likely to have a material adverse effect on the business, properties, operations or financial condition of Liberty Media and its subsidiaries (including On Command and its subsidiaries), taken as a whole;

receipt of all material governmental consents, approvals and authorizations; and

the shares of Liberty Media Series A common stock that will be issued in connection with the merger must be authorized for listing on the New York Stock Exchange, subject only to official notice of issuance.

**Covenants**

*Certain Covenants by On Command.* On Command has agreed, except as permitted, required or specifically contemplated by the merger agreement or consented to in writing by Liberty Media, to conduct, and to cause each of its subsidiaries to conduct, its business, in the ordinary and usual course consistent with past practice, and to use its reasonable efforts to preserve intact its business organization, to preserve its licenses and other permits in full force and effect, to keep available the services of its present officers and key

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employees and to preserve the good will of those with which it has business relationships. On Command has also agreed that except as permitted, required or specifically contemplated by the merger agreement or consented to in writing by Liberty Media, it will not and will not permit any of its subsidiaries to, prior to the effective time of the merger:

amend its certificate of incorporation or bylaws or other governing instrument or document;

authorize for issuance, issue, grant, sell, deliver, dispose of, pledge or otherwise encumber any shares of its capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of its capital stock or other equity or voting interests, or any rights, options, warrants, calls, commitments or other agreements of any character to purchase or acquire any shares of its capital stock or other equity or voting interests, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of its capital stock or other equity or voting interests, subject to certain specified exceptions;

split, combine, subdivide or reclassify the outstanding shares of its capital stock or other equity or voting interests, or declare, set aside for payment or pay any dividend, or make any other actual constructive or deemed distribution in respect of any shares of its capital stock or other equity or voting interests, or otherwise make any payments to stockholders or owners of equity or voting interests in their capacity as such (other than dividends or distributions paid by any wholly-owned subsidiary of On Command to On Command or another wholly-owned subsidiary);

redeem, purchase or otherwise acquire, directly or indirectly, any outstanding shares of capital stock or other securities or equity or voting interests of On Command or any subsidiary of On Command, subject to certain specified exceptions;

make any other changes in its capital or ownership structure;

sell or grant a lien with respect to any stock, equity or partnership interest owned by it in any subsidiary of On Command;

enter into or assume any contract, agreement, obligation, commitment or arrangement with respect to any of the foregoing; or

take certain other actions outside of the ordinary course of business.

In addition, On Command has agreed that it will not, and it will not permit its officers, directors, representatives and agents to, directly or indirectly, (i) take any action to solicit, initiate or knowingly encourage the submission of any offer or proposal concerning a tender offer, exchange offer, merger, share exchange, recapitalization, consolidation or other similar business combination, or a direct or indirect acquisition in any manner of a significant equity interest in, or a substantial portion of the assets of, On Command (each, an Acquisition Proposal ) or (ii) engage in discussions or negotiations with any person to facilitate an Acquisition Proposal. However, On Command may engage in discussions or negotiations with, and furnish nonpublic information or access to, any person in response to an unsolicited Acquisition Proposal, if (y) it has complied with the foregoing non-solicitation covenant and (z) the On Command board of directors determines in good faith after consultation with counsel that it is necessary to do so in order to discharge its fiduciary duties under applicable law. On Command must notify Liberty Media of, and keep it informed of any developments with respect to, an Acquisition Proposal.

*Certain Covenants by Liberty Media.* Pursuant to the merger agreement, Liberty Media has agreed, in its capacity as a beneficial owner of On Command common and preferred stock, to use commercially reasonable efforts to cause the On Command stock beneficially owned by it to be voted at the special meeting in favor of the proposal to adopt the merger agreement.

**Indemnification**

The merger agreement provides that, from and after the effective time of the merger, On Command (as the surviving corporation in the merger) will indemnify, defend and hold harmless the present and former

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directors and officers of On Command and any of its subsidiaries (when acting in such capacity), and any person who is or was serving at the request of On Command as a director or officer of another entity (when acting in such capacity) (collectively, the Indemnified Parties ) against all losses, claims, damages, costs, expenses (including fees and expenses of counsel properly retained by an Indemnified Party under the merger agreement), liabilities or judgments or amounts that are paid in settlement with the approval of On Command (which approval shall not be unreasonably withheld or delayed) of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or in part out of the fact that such person was at any time prior to the effective time of the merger a director or officer of On Command, pertaining to any matter existing or occurring at or prior to the effective time of the merger and whether asserted or claimed prior to, at or after the effective time of the merger ( Indemnified Liabilities ) to the full extent that (x) a corporation is permitted under Delaware law to indemnify or advance expenses to its own directors or officers, as the case may be, (y) such Indemnified Party would have been entitled to be indemnified by On Command, if such Indemnified Party was a director or officer of On Command, with respect to the Indemnified Liabilities in question under the On Command certificate of incorporation and On Command's bylaws as in effect on September 9, 2003 and under any indemnification agreement with On Command in a form disclosed to Liberty Media prior to the date of the merger agreement and (z) such indemnification otherwise is permitted by applicable law.

### **Listing of Liberty Media Series A Common Stock**

Liberty Media will use reasonable efforts to cause the shares of Liberty Media Series A common stock that will be issued in the merger (including shares issued in connection with On Command's options converted in the merger) to be authorized for listing on the New York Stock Exchange, subject to official notice of issuance, before completing the merger. The merger will not be completed before the authorization is obtained.

### **Termination, Amendment and Waiver**

*Termination.* The merger agreement may be terminated and the merger abandoned at any time prior to the effective time of the merger, whether before or after adoption of the merger agreement by the stockholders of On Command, by:

mutual consent of On Command and Liberty Media;

either On Command, on the one hand, or Liberty Media and ONCO Acquisition Co., on the other hand, if (i) the merger has not been consummated before March 31, 2004, unless this failure is due to the failure of the party seeking to terminate the merger agreement to perform any of its obligations thereunder, (ii) there has been a material breach of any representation, warranty, covenant or agreement on the part of the other party (or by ONCO Acquisition Co., if the party seeking to terminate the merger agreement is On Command) contained in the merger agreement and this breach is incapable of being cured, (iii) any court of competent jurisdiction or other competent governmental authority has issued an order, decree or ruling or taken any other action permanently restraining, enjoining or otherwise prohibiting the merger and this action has become final and nonappealable, or (iv) the required adoption of the merger agreement by the stockholders of On Command has not been duly obtained, provided the terminating party has complied with its obligations contained in the merger agreement regarding the special meeting and applicable Securities and Exchange Commission filings; or

Liberty Media or On Command, if the On Command board of directors has withdrawn or modified in any manner adverse to Liberty Media its recommendation to On Command stockholders regarding the adoption of the merger agreement and approval of the merger; or

On Command (upon a determination of its independent directors) if the implied value of the exchange ratio, as adjusted pursuant to the terms of the merger agreement, is less than \$1.90 per share, based on the average closing price of Liberty Media Series A common stock during the five trading days ending

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on the third trading day prior to the closing of the merger, unless Liberty Media elects to increase the exchange ratio to yield an implied value per share of On Command common stock of \$1.90.

In the event of termination of the merger agreement by either On Command or Liberty Media as provided above, the merger agreement will become void and there will be no liability or obligation on the part of Liberty Media, ONCO Acquisition Co., On Command or their respective affiliates, stockholders, officers, directors, agents or representatives (other than under certain specified provisions of the merger agreement which will survive the termination thereof and other than to the extent this termination results from the willful breach by Liberty Media, ONCO Acquisition Co. or On Command of any of its respective representations, warranties, covenants or agreements contained in the merger agreement).

*Amendment and Waiver.* On Command and Liberty Media may amend the merger agreement, by action taken or authorized by their respective boards of directors, at any time prior to the effective time of the merger, either before or after adoption by the stockholders of On Command of the merger agreement, except that after the adoption by the stockholders of On Command, no amendment may be made that by law requires further approval by such stockholders without such further approval. At any time prior to the effective time of the merger, either On Command or Liberty Media, by action taken or authorized by such party's board of directors, may, to the extent legally allowed, extend the time specified in the merger agreement for the performance of any of the obligations of the other party, waive any inaccuracies in the representations and warranties of the other party contained in the merger agreement or in any document delivered pursuant thereto, waive compliance by the other party with any of the agreements or covenants of such other party contained in the merger agreement or waive any condition to such waiving party's obligation to consummate the transactions contemplated by, or other obligations under, the merger agreement.

**Certain Restrictions on Resale of Liberty Media Series A Common Stock**

All shares of Liberty Media Series A common stock received by On Command stockholders in the merger will be registered under the Securities Act of 1933 and freely transferable under the federal securities laws, except that any such shares received by persons who are deemed affiliates (as this term is defined under the Securities Act of 1933) of On Command prior to the merger may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act of 1933 (or Rule 144 in the case of such persons who are or become affiliates of Liberty Media) or as otherwise permitted under the Securities Act of 1933. This proxy statement/prospectus may also be used as a prospectus for the resale by affiliates of On Command of shares of Liberty Media Series A common stock acquired in the merger. Any such resale would be reflected in a supplement to this proxy statement/prospectus or a post-effective amendment to the registration statement, as appropriate.

Persons who may be deemed to be affiliates of On Command or Liberty Media generally include individuals or entities that control, are controlled by, or are under common control with such party and may include certain officers and directors of such party as well as principal stockholders of such party. The merger agreement requires On Command to use reasonable efforts to cause each of its affiliates to execute a written agreement to the effect that such person will not offer or sell or otherwise dispose of any of the shares of Liberty Media Series A common stock issued to such person in or pursuant to the merger in violation of the Securities Act of 1933 or the rules and regulations promulgated by the Securities and Exchange Commission thereunder.

**APPRAISAL RIGHTS OF DISSENTING STOCKHOLDERS**

If the merger is consummated, holders of On Command common stock on the date of making a demand for appraisal, as described below, will be entitled to have the fair value of those shares appraised by the Delaware Court of Chancery under Section 262 of the Delaware corporate statute and to receive payment for the fair value of those shares instead of the merger consideration. In order to be eligible for such appraisal rights, however, a stockholder must (1) continue to hold such stockholder's shares through the effective date of the merger; (2) strictly comply with the procedures described in Section 262 and (3) not have voted in

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favor of the merger (a stockholder's vote against the merger, including as a result of a failure to vote, will not in and of itself constitute a waiver or exercise of his or her appraisal rights).

Holders of On Command preferred stock will also be entitled to exercise their statutory dissenters' rights of appraisal. All outstanding shares of Series A preferred stock are currently held by the former Chairman of the Board and Chief Executive Officer of On Command, Jerome H. Kern, who is also a director of Liberty Media. All outstanding shares of Series B, C and D preferred stock are currently held by Ascent Entertainment Group, Inc., a wholly owned subsidiary of Liberty Satellite. The Liberty Satellite board of directors has authorized Liberty Satellite to waive any dissenters' rights of appraisal that it has with respect to the On Command common stock and Series B, C and D preferred stock that it beneficially owns. Liberty Satellite is not subject to any binding agreement to waive its dissenters' rights of appraisal, and there can be no assurance that the board of directors of Liberty Satellite will not revoke such authorization prior to the special meeting.

**The statutory right of appraisal granted by Section 262 requires strict compliance with the procedures set forth in Section 262. Failure to follow any of these procedures may result in a termination or waiver of appraisal rights under Section 262. The following is a summary of the principal provisions of Section 262.**

The following summary is not a complete statement of Section 262 of the Delaware corporate statute, and is qualified in its entirety by reference to Section 262, which is incorporated in this proxy statement/ prospectus by reference, together with any amendments to the laws that may be adopted after the date of this proxy statement/ prospectus. A copy of Section 262 is attached as **Annex II** to this proxy statement/ prospectus.

*Notice Requirements.* Under Section 262, not less than 20 days prior to the date of the special meeting, On Command, as the surviving corporation, is required to mail to each On Command stockholder entitled to appraisal rights, a notice that appraisal rights are available to the stockholder. This notice must also include a copy of Section 262. **This proxy statement/ prospectus constitutes your notice of appraisal rights as required under Section 262, including your notice as to the time periods in which you have to exercise those rights. No further notice as to time restrictions on your appraisal rights will be given. It was mailed to the stockholders of On Command on or about November 4, 2003.**

*Demand for Appraisal.* In order to exercise appraisal rights, a stockholder must, before the taking of the vote on the merger agreement and the merger at the special meeting, demand in writing from the surviving corporation, On Command, an appraisal of the stockholder's shares of On Command stock. This demand will be sufficient if it reasonably informs On Command of the identity of the stockholder and that the stockholder intends to demand an appraisal of the fair value of the stockholder's shares of On Command stock. Failure to make this demand on or before the taking of the vote on the merger agreement and the merger at the meeting will foreclose a stockholder's rights to appraisal. A stockholder's vote against the merger agreement and the merger, including as a result of a failure to vote, will not in and of itself constitute a waiver or exercise of his or her appraisal rights. **All demands should be delivered to On Command and addressed as follows: On Command Corporation, 4610 South Ulster Street, 6th Floor, Denver, Colorado 80237, Attention: Corporate Secretary.**

Only a record holder of shares of On Command stock on the date of making a written demand for appraisal who continuously holds those shares through the time of the merger is entitled to seek appraisal. Demand for appraisal must be executed by or for the holder of record, fully and correctly, as that holder's name appears on the holder's stock certificates representing shares of On Command stock. If On Command stock is owned of record in a fiduciary capacity by a trustee, guardian or custodian, the demand should be made in that capacity. If On Command stock is owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be made by or for all owners of record.

An authorized agent, including an agent for one or more joint owners, may execute the demand for appraisal for a holder of record; that agent, however, must identify the record owner or owners and expressly disclose in the demand that the agent is acting as agent for the record owner or owners of the shares. If a stockholder holds shares of On Command stock through a broker who in turn holds the shares through a

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central securities depository nominee such as Cede & Co., a demand for appraisal of such shares must be made by or on behalf of the depository nominee and must identify the depository nominee as record holder.

A record holder such as a broker, fiduciary, depository or other nominee who holds shares of On Command stock as a nominee for more than one beneficial owner, some of whom desire to demand appraisal, may exercise appraisal rights on behalf of those beneficial owners with respect to the shares of On Command stock held for those beneficial owners. In that case, the written demand for appraisal should state the number of shares of On Command stock covered by it. Unless a demand for appraisal specifies a number of shares, the demand will be presumed to cover all shares of On Command stock held in the name of the record owner.

**This proxy statement/ prospectus constitutes statutory notice that beneficial owners who are not record owners and who intend to exercise appraisal rights should instruct the record owner to comply with the statutory requirements with respect to the exercise of appraisal rights before the taking of the vote on the merger agreement and the merger at the special meeting.**

Within 10 days of the effective date of the merger, On Command must notify each stockholder whose demand for appraisal complies with Section 262 and who has not voted in favor of the merger of the date that the merger has become effective.

*Filing of Petition.* Within 120 days after the effective date of the merger, any stockholder who has complied with the applicable provisions of Section 262 will be entitled, upon written request, to receive from On Command a statement setting forth the aggregate number of shares of stock with respect to which demands for appraisal were received by On Command and the number of holders of these shares.

On Command must mail this statement within ten days after it receives the written request or within ten days after the expiration of the period for the delivery of demands as described above, whichever is later.

Within 120 days after the effective date of the merger, the surviving corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of On Command stock held by all stockholders seeking appraisal. A dissenting stockholder must serve a copy of the petition on On Command. If no petition is filed within the 120-day period, the rights of all dissenting stockholders to appraisal will cease.

Stockholders seeking to exercise appraisal rights should not assume that the surviving corporation will file a petition with respect to the appraisal of the fair value of their shares or that the surviving corporation will initiate any negotiations with respect to the fair value of those shares. The surviving corporation is under no obligation to, and has no present intention to, take any action in this regard. Accordingly, stockholders who wish to seek appraisal of their shares should initiate all necessary action with respect to the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262. **Failure to file the petition on a timely basis will cause the stockholders' right to an appraisal to cease.**

*Hearing in Chancery Court.* If a petition for an appraisal is filed in a timely manner, at the hearing on the petition, the Delaware Court of Chancery will determine which stockholders are entitled to appraisal rights and will appraise the shares of On Command stock owned by those stockholders. The Delaware Court of Chancery may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their stock certificates to the Register in Chancery for notation on such certificates of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings as to such stockholder. The court will determine the fair value of those shares, taking into account all relevant circumstances, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, to be paid, if any, upon the fair value. The Delaware Court of Chancery may determine the cost of the appraisal proceeding and assess it against the parties as the court deems equitable.

Neither Liberty Media nor On Command makes any representation as to the outcome of the appraisal of fair value as determined by the court and stockholders should recognize that such an appraisal could result in a determination of a value that is higher or lower than, or the same as, the merger consideration. Liberty Media does not anticipate offering more than the merger consideration to any stockholder exercising appraisal rights



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and reserves the right to assert, in any appraisal proceeding, that, for purposes of Section 262, the fair value of a share of On Command common stock is less than the merger consideration.

*Expenses.* Each dissenting stockholder is responsible for his or her attorneys' and expert witness expenses, although upon application of a dissenting stockholder, the court may order that all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding (including, without limitation, reasonable attorney's fees and the fees and expenses of experts) be charged pro rata against the value of all shares of On Command stock entitled to appraisal. In the absence of a court determination or assessment, each party bears its own expenses.

*No Right to Vote or Receive Dividends.* Any stockholder who has demanded appraisal in compliance with Section 262 will not, after the merger, be entitled to vote such stock for any purpose or receive payment of dividends or other distributions, if any, on On Command stock, except for dividends or distributions, if any, payable to stockholders of record at a date prior to the merger.

*Withdrawal.* A stockholder may withdraw a demand for appraisal and accept Liberty Media Series A stock at any time within 60 days after the effective date of the merger, or thereafter may withdraw a demand for appraisal with the written approval of On Command. Notwithstanding the foregoing, if an appraisal proceeding is properly instituted, it may not be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and any such approval may be conditioned on the Court of Chancery's deeming the terms to be just. If, after the merger, a holder of On Command common stock who had demanded appraisal for his shares fails to perfect or loses his right to appraisal, those shares will be treated as if they were converted into Liberty Media Series A common stock at the time of the merger.

**Because a stockholder that fails to comply entirely with the strict requirements of the Delaware corporate statute may lose such stockholder's right to an appraisal, any On Command stockholder who is considering exercising appraisal rights should promptly consult a legal advisor.**

## **COMPARISON OF STOCKHOLDER RIGHTS**

As a stockholder of On Command, your rights are governed by On Command's certificate of incorporation and bylaws. After completion of the merger, unless you exercise your appraisal rights, you will become a stockholder of Liberty Media. As a Liberty Media stockholder, your rights will be governed by Liberty Media's certificate of incorporation and bylaws. On Command and Liberty Media are each incorporated under the laws of the State of Delaware and accordingly, your rights as a stockholder will continue to be governed by the Delaware corporate statute after completion of the merger.

This section of the proxy statement/ prospectus describes certain differences between the rights of holders of On Command common stock and Liberty Media common stock. This description is only a summary and may not contain all of the information that is important to you. You should carefully read this entire document and the other documents we refer to for a more complete understanding of the differences between being a stockholder of On Command and being a stockholder of Liberty Media.

### **Common Stock**

On Command has one class of common stock issued and outstanding and Liberty Media has Series A and Series B common stock issued and outstanding. On Command has authorized 150 million shares of common stock, and Liberty Media has authorized 4,400 million shares of common stock. As of September 30, 2003, there were approximately 30,822,340 shares of On Command common stock outstanding and an aggregate of approximately 2,866,196 shares of On Command common stock reserved for issuance upon exercise of stock, options and restricted stock awards. As of September 30, 2003, there were approximately 2,903,411,428 shares of Liberty Media common stock outstanding (2,691,592,652 shares of Series A common stock and 211,818,776 shares of Series B common stock), and an aggregate of approximately 82,069,880 shares of Liberty Media Series A and Series B common stock reserved for issuance upon exercise of outstanding options and warrants.

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### **Preferred Stock**

On Command has authorized ten million shares of preferred stock, par value \$0.01 per share. Of On Command's preferred stock, 13,500 shares are designated as Convertible Participating Preferred Stock, Series A; 15,000 shares are designated as Cumulative Redeemable Preferred Stock, Series B; 10,000 shares are designated as Cumulative Redeemable Preferred Stock, Series C; and 60,000 shares are designated as Cumulative Convertible Redeemable Preferred Stock, Series D. As of September 30, 2003, there were 13,500 shares of Series A preferred stock, 15,000 shares of Series B preferred stock, 10,000 shares of Series C preferred stock, and 60,000 shares of Series D preferred stock outstanding.

Liberty Media has authorized 50 million shares of preferred stock, none of which were outstanding as of September 30, 2003.

### **Conversion**

Each share of Series A preferred stock of On Command is convertible, at the option of the holder, into 100 shares of common stock of On Command, subject to certain customary adjustments. After the merger, each share of On Command Series A preferred stock will no longer be convertible into 100 shares of On Command common stock, but instead will be convertible into the number of shares of Liberty Media Series A common stock equal to 100 multiplied by the exchange ratio, subject to certain customary adjustments. Additionally, each share of Series A preferred stock will automatically convert into 100 shares of On Command common stock, or shares of Liberty Media Series A common stock after the merger, as the case may be, upon the satisfaction of all obligations under that certain promissory note in the aggregate principal amount of \$21,080,250 made by Jerome H. Kern, the holder of all 13,500 authorized shares of the Series A preferred stock, to On Command, subject to the receipt of any required governmental consents or approvals. The promissory note, unless accelerated earlier, will mature and become payable, together with accrued interest, on August 1, 2005. Interest on the promissory note accrues at a rate of 7% per annum, compounded quarterly. Upon the occurrence of certain events of default, the interest rate will increase to 9% per annum. The promissory note is non-recourse against Mr. Kern personally except for an amount equal to 25% of the principal of and accrued interest on the promissory note. In determining Mr. Kern's personal liability under the promissory note, On Command must first proceed against the shares of On Command Series A preferred stock (or proceeds thereof) held as collateral for the promissory note, with such proceeds being applied first to the obligations for which Mr. Kern is personally liable. Neither the principal of nor interest on the promissory note may be prepaid.

As of September 30, 2003, each share of Series D preferred stock of On Command is convertible, at the option of the holder, into 156.7337 shares of common stock of On Command, subject to certain customary adjustments. Neither the common stock, the Series B preferred stock nor the Series C preferred stock of On Command is convertible.

Each share of Series B common stock of Liberty Media is convertible, at the option of the holder, into one share of Series A common stock of Liberty Media. The Series A common stock of Liberty Media is not convertible.

### **Voting Rights**

Subject to the voting rights provided by law or granted to any series of On Command preferred stock, all voting power is exclusively vested in the common stock. Holders of On Command common stock are entitled to one vote per share on all matters to be voted on by holders of common stock, except that there is cumulative voting in all elections of directors, subject to the termination of cumulative voting under the circumstances described below. The holders of On Command Series A and Series D preferred stock are entitled to vote on any matter on which the common stockholders are entitled to vote, with each share of Series A and Series D preferred stock entitled to the number of votes equal to the number of shares of On Command common stock into which each share of Series A or Series D preferred stock is convertible, which was 100 and 156.7337, respectively, as of September 30, 2003.

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Until the Termination Date (as defined below), each holder of shares of On Command common stock will be entitled at all elections of directors to a number of votes equal to the number of votes which (except for this provision as to cumulative voting) such holder would be entitled to cast for the election of directors with respect to such holder's common stock multiplied by the number of directors to be elected, and such holder may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such holder sees fit. Upon the occurrence of the Termination Date, the holders of On Command common stock will no longer be entitled to cumulative voting rights with respect to the election of directors and, from and after the Termination Date, all directors will be elected by straight voting.

Termination Date means the first date on which any person or related group (within the meaning of Rule 13d-3 or Rule 14d-2 promulgated under the Securities Exchange Act of 1934), including any group acting for the purpose of acquiring or disposing of securities (within the meaning of Rule 13d-5(b)(1) promulgated under the Securities Exchange Act of 1934), other than the Excluded Persons (as defined below), holds, directly or indirectly, more than 15% of the outstanding shares of capital stock of On Command entitled to vote generally in the election of directors (considered for this purpose as one class), and, for the purpose of this provision, all shares of On Command common stock issuable upon the exercise or conversion of all currently exercisable or convertible warrants, options or other securities held by such person or related group will be deemed to be outstanding and held by such person or related group.

Excluded Person means each person holding On Command Video Corporation (OCV) common stock immediately prior to the merger of OCV and a subsidiary of On Command which was converted into On Command common stock, and any other person who, individually or collectively with its affiliates, received upon original issuance shares of On Command common stock and warrants that represent more than 5% of the Applicable Securities (as defined below).

Applicable Securities means all shares of On Command common stock (including shares of common stock purchasable upon exercise of certain warrants) issued in connection with certain transactions among Ascent Entertainment Group, Inc., SpectraVision, Inc., the Official Creditors Committee for SpectraVision, Inc., Spectradyne, Inc. and other domestic subsidiaries of SpectraVision, Inc.

The holders of Liberty Media Series A common stock are entitled to one vote for each share held, and the holders of Liberty Media Series B common stock are entitled to ten votes for each share held, on all matters voted on by stockholders, including elections of directors. Liberty Media does not provide for cumulative voting in the election of directors in its certificate of incorporation.

## **Liquidation and Dissolution**

In the event of liquidation, dissolution or winding up of On Command, the holders of On Command common stock, and in the event of liquidation, dissolution or winding up of Liberty Media, the holders of Series A common stock and Series B common stock of Liberty Media, respectively, will share equally, on a share for share basis, in the assets remaining for distribution to the common stockholders of the applicable corporation, after payment or provisions for payment of such corporation's debts and liabilities and subject to prior payment in full of any preferential amounts to which the holders of such corporation's preferred stock may be entitled. As of September 30, 2003 the aggregate liquidation preference of the On Command preferred stock was \$104,669,561.

## **Classified Board of Directors**

Delaware law provides that a corporation's board of directors may be divided into various classes with staggered terms of office. On Command's certificate of incorporation and bylaws do not provide for a classified board of directors. The board of directors of Liberty Media is divided into three classes, as nearly equal in size as possible, with one class elected annually. The holders of a series of preferred stock of Liberty Media or On Command may be entitled to elect additional directors, if the certificate of designations, with respect to such series so provides. Directors of Liberty Media are elected for a term of three years, subject to the election and qualification of the director's successor and to the director's earlier death, resignation or removal.

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### **Number of Directors**

On Command's board of directors currently consists of seven directors. The number of directors on On Command's board is determined by resolution of the board of directors or by the stockholders at the annual meeting, but cannot be fewer than seven. Liberty Media's board of directors currently consists of nine directors. The number of directors on Liberty Media's board is determined by resolution of the board of directors, but cannot be fewer than three.

### **Stockholder Action by Written Consent; Special Meetings**

The certificate of incorporation and bylaws of On Command provide that any action required or permitted to be taken at any annual or special meeting of On Command stockholders may be taken without a meeting, without prior notice and without a vote if a consent in writing setting forth the action so taken is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted, provided that such action shall not become effective until 20 days after notice to all stockholders as required by Section 228(e) of the Delaware corporate statute unless such action is approved by all of the stockholders of On Command. The certificate of incorporation and bylaws of Liberty Media, however, do not permit its stockholders to take action by written consent in lieu of a meeting of stockholders, except as otherwise provided in the terms of any series of preferred stock.

Special meetings of the stockholders of On Command, for any purpose or purposes, unless otherwise provided by law, may be called by the chief executive officer and must be called by the chief executive officer or the secretary at the request in writing of a majority of the entire board of directors, or at the request in writing of stockholders owning at least a majority of the outstanding shares of capital stock of On Command entitled to vote generally in the election of directors (considered for this purpose as one class). The business transacted at any special meeting of the stockholders will be limited to the purposes stated in the notice for such meeting. Special meetings of stockholders of Liberty Media for any purpose or purposes may be called only by the Secretary of Liberty Media (1) upon written request of holders of not less than 66 2/3% of the total voting power of outstanding voting capital stock or (2) at the request of at least 75% of the members of the board then in office, except as otherwise required by law and subject to the rights of the holders of any series of preferred stock. No business other than that stated in the notice of special meeting shall be transacted at any special meeting.

### **Removal of Directors**

The certificate of incorporation of Liberty Media provides that, subject to the rights of any series of preferred stock, directors may be removed from office only for cause upon the affirmative vote of the holders of a least a majority of the total voting power of the then outstanding shares of Series A common stock, Series B common stock and any series of preferred stock entitled to vote at an election of directors, voting together as a single class.

The certificate of incorporation of On Command provides that directors may be removed from office with or without cause by the holders of a majority of the outstanding shares of capital stock of On Command entitled to vote generally in the election of directors (considered for this purpose as one class), except that, prior to the Termination Date (as defined above), if less than the entire board of directors is to be removed, no director may be removed without cause if the votes cast against such director's removal would be sufficient to elect such director if cumulatively voted at an election of the entire board of directors. Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of On Command preferred stock have the right, voting separately as a class, to elect one or more directors of the corporation, such director or directors may not be removed by a majority of the outstanding shares of capital stock as provided above.

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**Actions Requiring Supermajority Vote**

The certificate of incorporation of Liberty Media provides that, subject to the rights of the holders of any series of preferred stock, the affirmative vote of the holders of at least 66 2/3% of the voting power of outstanding voting capital stock, voting together as a single class, is required for the following corporate actions:

to amend, alter or repeal any provision of the certificate of incorporation or the addition or insertion of other provisions in the certificate, unless (1) the laws of the state of Delaware, as then in effect, do not require stockholder approval or (2) at least 75% of the members of its board then in office has approved such transaction;

to adopt, amend or repeal any provision of the bylaws, except that no vote of stockholders will be required to authorize the adoption, amendment or repeal of any provision of the bylaws by the board of directors in accordance with the power conferred upon it pursuant to the certificate of incorporation;

the merger or consolidation of the corporation with any other corporation, unless (1) the laws of the state of Delaware, as then in effect, do not require stockholder approval or (2) at least 75% of the members of its board then in office has approved such transaction;

the sale, lease or exchange of all, or substantially all, of the assets of the corporation, unless at least 75% of the members of its board then in office has approved such transaction; or

the dissolution of the corporation, unless at least 75% of the members of its board then in office has approved such transaction;.

Liberty Media's chairman, John C. Malone, holds the power to direct the vote of approximately 44% of Liberty Media's outstanding voting power.

The certificate of incorporation of On Command provides that any amendment, alteration, change or repeal of the provisions (1) limiting the effectiveness of action by written consent in lieu of meeting until 20 days after delivery of the notice to stockholders required by Section 228 of the Delaware corporate statute, (2) requiring at least seven directors on the On Command board of directors for so long as cumulative voting is in effect and (3) reserving the right to amend the certificate of incorporation in the manner prescribed by law, requires the affirmative vote of the holders of at least 80% of the outstanding shares of capital stock of On Command entitled to vote on such matters.

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**INFORMATION ABOUT ON COMMAND**

**Business of On Command**

*Industry Background.* The provision of in-room entertainment and information services to the hotel industry includes offering pay-per-view motion pictures, archived television and other short subject content, games, digital music, Internet connectivity, guest programming of select pay cable channels and an increasing array of interactive programs and information services. Pay-per-view services were introduced in the early 1970s and have since become a standard amenity offered by many hotels to their guests. Historically, providers of programming to hotels delivered their content on a fixed time schedule that did not provide the hotel guest flexibility in choosing when to watch a movie. Typically, a guest would be offered a choice of four to eight movies, each of which would be shown once every two to four hours. The development of video switches enabled providers of pay-per-view services to offer scheduling flexibility to the viewer. Depending on the type of system installed and the size of the hotel, guests could choose from among 12 to 120 pay-per-view programming titles as of June 30, 2003. Based on the current storage capacities of On Command's most technologically advanced systems, and improvements in the storage capacities of those systems that are expected to occur in 2003 and future periods, On Command expects that the average number of programming titles available to guests will increase over time. Changes in technology have also led to the ability to provide a number of on-demand interactive services such as Internet services, games, digital music, guest folio review, automatic checkout, survey completion and guest messaging. The market for in-room entertainment and information is characterized as a highly competitive environment among several industry-dedicated companies and a number of new entrants including cable companies, satellite distribution companies, telecommunications companies, laptop connectivity companies and others. For additional information regarding the competitive environment in the in-room entertainment and information industry, see Competition below.

*Video Systems.*

*OCX® Video System.* The OCX® video system is a multimedia platform that, in most cases, incorporates digital content storage and playback. The OCX® video system currently is capable of providing interactive multimedia menus, high-speed television-based Internet service, Playstation® games and digital music, as well as the ability to offer more choices of higher-quality on-demand movie services, including full-length feature films and non-theatrical short videos.

On Command has developed an updated version of the OCX® video system, marketed under the name Roommate . This new version expands upon the basic architecture of the OCX® video system, allowing On Command to take advantage of general cost reductions in hardware technology while preserving its investment in its Site Manager software, discussed below. The Roommate system, which was designed to be installed in hotels with 150 or more rooms, was launched during the fourth quarter of 2001. Due to the cost benefits and greater storage capacity associated with Roommate , On Command generally installs the Roommate system whenever a new video system is required to be installed in new and existing hotels with 150 or more rooms. The standard Roommate system is configured to provide on-demand pay-per-view services and digital music, with television-based Internet access and video game services also available.

During the fourth quarter of 2002, On Command conducted field tests of MiniMate , a reduced scale extension of the Roommate video system that was designed to be economically and technologically viable for hotels with 150 rooms or less. Based on the results of the field testing, On Command has concluded that the MiniMate system was ready to be deployed, and On Command has begun to market the MiniMate system to smaller hotels. The standard MiniMate system is designed to provide on-demand pay-per-view services and digital music, with television-based Internet access service also available for an additional cost at the option of the hotel. When compared to the standard configuration of the Roommate system, the standard MiniMate system has the same capacity for the storage of programming titles, but has a smaller capacity for the simultaneous output of entertainment services. MiniMate's scalable design enables On Command to add additional products and services as such products and services become economically viable.

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One version of On Command's OCX® system utilizes an analog tape based video storage sub-system, as opposed to the digital content storage sub-system that is utilized by the majority of the OCX® systems. This video system, which On Command refers to as an OCX.i video system, represents an older system that has been upgraded on the front end to allow for the provision of the full range of entertainment and guest services available through the OCX® platform. The analog tape based storage sub-system of the OCX.i video system was not upgraded to the digital content storage sub-system utilized in a typical OCX® system due to economic considerations at the time of the upgrade. The analog tape based storage sub-system utilized by the OCX.i system is not compatible with the satellite distribution system that On Command began deploying in 2003. On Command is currently studying different alternatives that might allow On Command to economically convert to a compatible digital content storage sub-system in its OCX.i systems. No specific time frame for this conversion has been set. For additional information concerning On Command's satellite distribution system, see Content Distribution below.

At June 30, 2003, the OCX® video system was installed in 332,000 rooms, including 127,000 with Roommate™ systems, and 47,000 with OCX.i systems.

The OCX® video system supports a high degree of interactivity and customization, including a multimedia user interface. Video content is provided primarily via a digital file server or, in the case of the OCX.i video system, an array of video cassette players.

A key component of the OCX® video system is the Site Manager software application that controls the system, interfaces with the hotel billing management systems, and acts as the OCX® video system's overall resource manager (including user session management and resource allocation).

The OCX® video system provides enhanced multimedia applications and Internet access using a special purpose television-based Internet browser in conjunction with a wireless keyboard. The functionality and features of On Command's browser software were significantly upgraded during the year ended December 31, 2002. On Command has also partnered with several Internet content providers to organize Internet sites that have been specifically developed for presentation via the OCX® platform. For additional information concerning On Command's Internet service, see Services Internet Services below.

While the OCX® platform itself may be extended or upgraded to support future new product offerings, current implementations include on-demand pay-per-view services, television-based Internet access, Playstation® video games, digital music and a rich interactive multimedia user interface. With the OCX® video system technology, each component of the platform has multiple uses. For example, the same component used for navigating graphics-intensive menus is used subsequently for accessing the Internet and sending e-mail. With the digital content storage that is included in most OCX® systems, a feature film could be replaced by four 30-minute short subject videos, unlike one-for-one replacement with videocassettes. In addition, digital content storage will allow On Command to economically implement the electronic delivery of digital content through On Command's satellite distribution system. For additional information concerning On Command's satellite distribution system, see Content Distribution below.

On Command is continually upgrading its video systems with the overall objective of maximizing revenue, while minimizing expenses and capital expenditures. During the year ended December 31, 2002 and the six months ended June 30, 2003, On Command upgraded 26,000 and 51,000 OCX® rooms, respectively, to allow for the digital provision, where applicable, of music and a 24-hour mature-themed motion picture product, and to provide a full-motion video and audio promotional screen. During the six months ended June 30, 2003, On Command upgraded 69,000 of its OCX® systems that utilize digital content storage sub-systems (approximately 285,000 rooms at June 30, 2003) to facilitate the electronic delivery of digital content through On Command's satellite distribution system.

During the six months ended June 30, 2003, On Command started to deploy a new graphical interface that provides for an enhanced menu in all of its OCX® systems that use a digital content storage sub-system in order to expand the entertainment options available to the guest, improving product presentation, and facilitating guest navigation of the on-screen menu.

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*OCV® Video System.* The On Command video system (the OCV® or Blue Box® video system ) is On Command's original platform, and the predecessor to the OCX® video system. At June 30, 2003, the OCV® video system was installed in approximately 524,000 rooms. The OCV® video system was patented by On Command in 1992, and consists of a microprocessor controlling the television in each room, a hand-held remote control, and a central head-end video rack and system computer located elsewhere in the hotel. Programming signals originate from video cassette players located within the head-end rack and are transmitted to individual rooms by way of the OCV® video system's proprietary video switching technology. Movie starts are automatically controlled by the system computer. The system computer also records the purchase by a guest of any title and reports billing data for manual or automated entry into the hotel's property management system, which system posts the charge to the guest's bill.

Manual functions of the OCV® video system equipment are limited to changing videocassettes once per month and are all handled by On Command's service personnel, who also update the system's movie titles screens. The OCV® video system's information system is capable of generating regular reports of guests' entertainment selections, permitting the OCV® video system to adjust its programming to respond to viewing patterns. The number of guests that can view a particular movie at the same time varies from hotel to hotel depending upon the popularity of the movie. The OCV® video system provides more copies of the most popular programming to hotels. The OCV® video system includes a computerized in-room on-screen menu that offers guests a list of only those movie selections available to the guest at that time rather than all of the titles currently playing at the hotel. This minimizes the possibility of a guest being disappointed when the guest's selection is not available. The high-speed, two-way digital communications capability of the OCV® video system enables On Command to provide advanced interactive and information features, such as video games, in addition to basic guest services such as video checkout, room service ordering and guest satisfaction surveys. The OCV® video system also enables hotel owners to broadcast informational and promotional messages and to monitor room availability.

The analog tape based storage sub-system utilized by the OCV® system is not compatible with the satellite distribution system that On Command began deploying in 2003. As a result, On Command is currently studying different alternatives that might allow On Command to economically convert to a compatible digital content storage sub-system in its OCV® systems. No specific timeframe for this conversion has been set.

During the year ended December 31, 2002 and the six months ended June 30, 2003, respectively, On Command upgraded approximately 61,000 and 18,000 OCV® rooms, respectively, to allow for the digital provision of music, a 24-hour mature-themed motion picture product, and a full-motion video and audio promotional screen. On Command's experience has been that the installation of this upgrade has typically resulted in increases in room revenue.

*Other Video Systems.* The SpectraVision® video system, which provides in-room entertainment on a rolling schedule basis, and in some upgraded variations, on an on-demand basis, remained in approximately 21,000 rooms at June 30, 2003. The SpectraVision® video system generally offers fewer movie choices than the OCX® or OCV® video systems. The Video Now video system, which provides in-room entertainment on an on-demand basis, remained in approximately 6,600 rooms at June 30, 2003. Both the SpectraVision® and Video Now video systems utilize older technologies, and On Command expects that the number of hotels served by the SpectraVision® and Video Now video systems will decrease significantly during 2003, and will be phased-out completely over the next several years. In general, On Command expects that service will be discontinued to unprofitable or marginally profitable hotels, while other more profitable hotels will be converted to a more technologically advanced video system, if the return on invested capital is projected to be adequate. During the year ended December 31, 2002 and the six months ended June 30, 2003, the SpectraVision® and Video Now video systems generated less than 3% of On Command's total net revenue.

*Content Distribution.* On Command uses several methods to distribute content to its proprietary video and entertainment systems located in hotels. Free-to-guest cable programming is distributed via satellite to the antennae systems of hotels. VHS tapes and removable hard disk drives containing films, digital music and short subjects, and video game cassettes have historically been distributed to hotels by air and ground



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transportation. As described above under "Video Systems - OCX® Video System", On Command is in the process of converting its OCX® systems that utilize a digital content storage sub-system to satellite delivery. As of June 30, 2003, On Command converted OCX® systems serving approximately 72,000 rooms to satellite delivery. On Command is currently studying different alternatives that might provide for the economic implementation of satellite delivery for films and videos to hotels that use OCV® and OCX.i video systems, and no specific time frame for this application of satellite delivery has been set. On Command's satellite delivery technology does not currently encompass the delivery of video games. The use of a satellite delivery system is considered desirable due to the cost savings and efficiencies that are expected to arise from a more efficient distribution system, and the potential increases in revenue that are expected to result from On Command's ability to more actively manage the content that is available in hotel rooms.

*Capital Costs.* On Command seeks to pursue the development and deployment of new technologies, system upgrades and other capital projects that On Command expects to be economically viable based on projected increases in revenue and/or decrease in expenses. On Command undertakes a significant investment when it installs its system in a hotel property. Accordingly, On Command typically requires a five-to-seven year commitment from a hotel before On Command will agree to install a video system in a hotel. In general, the cost of On Command's proprietary video equipment has decreased as new technologies have evolved. Certain of On Command's contracts with hotels require On Command to provide hotels with various forms of capital assistance in addition to the direct costs incurred by On Command to install its video systems. For additional information concerning On Command's hotel contracts, see "Hotel Contracts" below.

**Services.**

*Pay-Per-View Movie Services.* On Command provides on-demand and, in less than 2% of rooms served, scheduled in-room television viewing of major motion pictures and non-rated motion pictures intended for mature audiences, for which a hotel guest pays on a per-view basis. Depending on the type of system installed and the size of the hotel, guests could choose from among 12 to 120 pay-per-view programming titles at June 30, 2003. Based on the current storage capacities of On Command's most technologically advanced systems, and improvements in the storage capacities of those systems that are expected to occur in future periods, On Command expects that the average number of programming titles available to guests will increase over time. On Command obtains the non-exclusive rights to show recently released motion pictures from major motion picture studios generally pursuant to agreements with each studio. The license period and fee for each motion picture are negotiated individually with each studio, which typically receives a percentage of that picture's net revenue generated by the pay-per-view system. Typically, On Command obtains rights to exhibit major motion pictures during the "Hotel/Motel Pay-Per-View Window," which is the time period after initial theatrical release and before release for home video distribution or cable television exhibition. On Command attempts to license pictures as close as possible to motion pictures' theatrical release dates to benefit from the studios' advertising and promotional efforts.

Through the year ended December 31, 2002, On Command also obtained non-rated motion pictures intended for mature audiences for a one-time flat fee that was nominal in relation to the licensing fees paid for major motion pictures. During the first half of 2003, On Command began to acquire most of its mature-themed content from a supplier who receives a contractually determined percentage of the net revenue generated from the content provided to On Command. In addition, the new supplier will perform editing and production services that On Command was generally required to perform under its prior arrangements with providers of mature-themed product. On Command expects that the cost of mature-themed content will increase as a result of this new arrangement.

The revenue generated from On Command's pay-per-view service is dependent on the occupancy rate at the property, the "buy rate" or percentage of occupied rooms that buy movies or other services at the property, and the price of the movie or service. Occupancy rates vary based on general economic conditions, the property's location and its competitive position within the marketplace. Buy rates generally reflect the hotel's guest demographic profile, the popularity of the motion pictures or services available at the hotel and the guests' other entertainment alternatives. Buy rates also vary over time with general economic conditions. The business of On Command is closely related to the performance of hotels in the top 25 markets, as defined by

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Smith Travel Research. Movie price levels are set based on overall economic conditions, recent release dates and guest acceptability. As of June 30, 2003, On Command's prices for individual motion pictures typically ranged from \$9.99 to \$12.99, and its prices for the 24-hour viewing of certain non-rated motion pictures intended for mature audiences typically ranged from \$14.99 to \$21.99.

*Short Subjects.* In addition to movies, On Command provides short video programming options to the hotel guest. This content includes HBO's Sex and the City and The Sopranos, the comedy series Seinfeld, Showtime's Red Shoe Diaries, programming from the Discovery Networks and other entertainment packages. On Command currently charges \$5.99 to \$9.99 for this type of programming and pays the supplier of the programming a negotiated percentage of net revenue from the programming. The short subjects offer an alternative to many guests with limited time who cannot watch a full-length feature movie. On Command's short video suppliers receive license fees that are equal to a negotiated percentage of the net revenue stream generated by the applicable short subject videos. At June 30, 2003, short subject videos were available to 763,000 or 86% of the total rooms served by On Command. Future growth of rooms in which On Command's short subject service is available is expected to come from those hotels where On Command can expect to earn an adequate return on its invested capital.

*Internet Services.* OCX® video systems are capable of supporting a television-based Internet service that enables guests to access and navigate the Internet through the television, using the remote control and wireless keyboard in their rooms. This service allows up to 24 hours of access for a typical price of \$10.99 for basic Internet and e-mail service. On Command has a premium Internet service that allows the guest to access the basic Internet service plus certain mature-themed content for a price of \$14.99. On Command expects to increase the availability of the premium Internet service in future periods. On Command has continually upgraded its television-based Internet service through improvements to its Internet browser software that offer better reformatting for the television, improved speed and enhanced functionality. In addition, during the year ended December 31, 2002, On Command entered into agreements for the provision of pre-formatted interactive content and applications that have been developed specifically for presentation to hotel guests via the OCX® platform. On Command plans to continue to seek out additional arrangements that will allow On Command to expand the amount of pre-formatted interactive content that is available through On Command's television-based Internet service. In addition to the software and content improvements, On Command has also improved the functionality of the latest versions of its television remote controls and wireless keyboards. Guest surveys indicate that the new browser technology, the improved Internet content, and, where deployed, the new in-room equipment have resulted in significantly increased customer satisfaction with On Command's television-based Internet service. On Command pays the provider of its Internet browser a flat software fee and either On Command or the applicable hotel pay the connectivity fees related to the service. At June 30, 2003, On Command's television-based Internet product was available to 278,000 or 31% of the total rooms served by On Command. Future growth of rooms in which On Command's Internet service is available is expected to come from those hotels where connectivity is available at a reasonable price, and where On Command can expect to earn an adequate return on its investment in the required in-room equipment and other capital requirements.

*Music.* In March 2001, On Command acquired control of Hotel Digital Network, Inc. ( Hotel Digital Network ), a company that provides in-room music content to hotels through On Command and other in-room entertainment providers. Until February 2002, Hotel Digital Network operated under the name Digital Music Network. In February 2002, Hotel Digital Network began doing business under the name Instant Media Network ( IMN ). With the IMN system, an On Command hotel guest pays \$9.99 per two-hour period to choose from over 600 CDs and over 100 music videos. The IMN system, marketed by On Command as Music On Command®, is available on certain OCX® and upgraded OCV® video systems. At June 30, 2003, On Command's digital music product was available to 250,000 or 28% of the total rooms served by On Command. On Command plans to continue to install and market Music On Command® in future periods. On Command, through IMN, generally advances minimum royalties to its suppliers, and is subject to additional fees that are calculated as a percentage of net revenue generated from the service once certain thresholds are met. The minimum royalties advanced to suppliers generally are not recoverable by On Command in the event that actual revenue is less than the revenue that is projected for the license period at

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the time that royalties are advanced to the suppliers. Future growth of rooms in which Music On Command® is available is expected to occur in those hotels where On Command can expect to earn an adequate return on its invested capital.

*Game Services.* At June 30, 2003, On Command's video game service was available to 398,000 or 45% of the total rooms served by On Command. On Command's Roommate<sup>SM</sup>, OCX® and OCV® video systems support PlayStation® games. On Command's systems, however, do not support Playstation®2 games. There are on average 8 to 12 game titles available in most rooms in which video games are offered. Guests typically pay \$6.99 per hour to play the games. On Command pays its video game suppliers a flat software fee. In addition, suppliers receive a percentage of net revenue generated from the service, subject to a minimum guarantee. On Command's agreement with its video game hardware and software supplier has expired. On Command expects to negotiate a new agreement with either its current supplier or a new supplier.

*Free-To-Guest Programming Services.* On Command also markets free-to-guest programming services pursuant to which a hotel may elect to receive one or more programming channels, such as ESPN®, HBO®, Turner Services, USA, STARZ!®, and other popular cable networks, which the hotel provides to guests at no additional cost. On Command provides hotels with guest programming services through a variety of arrangements, ranging from the payment by hotels of a monthly fee per room for each programming channel selected to the inclusion of the cost or part of the cost of such programming within On Command's overall contractual arrangements with hotels. On Command obtains its free-to-guest programming either directly from the supplier or from DIRECTV, Inc. pursuant to an agency agreement. Since all of On Command's free-to-guest programming channels are available pursuant to the DIRECTV agency agreement, the determination of whether to purchase directly from the programming supplier, or from DIRECTV, is based on cost considerations at the time that contracts with programming suppliers are under review for renewal. DIRECTV also provides transport services for most of On Command's free-to-guest programming. During the fourth quarter of 2002, On Command executed a new agency agreement with DIRECTV, and amended its existing transport agreement with DIRECTV. On Command's agreements with DIRECTV and its other suppliers expire on various dates through 2008. Agreements with respect to certain of the programming carried by On Command's video systems have expired, and On Command is operating under letter agreements or other arrangements until new arrangements are finalized.

On Command has agreements with over 25 programming suppliers that provide over 80 channels of programming. However, the standard free-to-guest channel line-up offered by On Command typically provides approximately 20 different channels of programming. Payment to programming suppliers primarily is based on subscriber room counts. However, variables such as the combination of channels received, occupancy, volume and penetration also factor into many of On Command's rates. Certain of On Command's arrangements with programming suppliers provide for increases in programming rates in future periods that are significantly in excess of (i) recent rates of inflation and (ii) On Command's projected growth rates for free-to-guest programming revenue. Although On Command is working with programming suppliers and taking other actions to mitigate future cost increases, there is no assurance that On Command will be able to limit the growth in its free-to-guest programming costs to rates that are less than or equal to On Command's projected growth rates for free-to-guest programming revenue. If programming costs increase at rates in excess of free-to-guest revenue growth rates in future periods, On Command will experience pressure on its operating margins. As discussed in greater detail under "Hotel Contracts" below, On Command's ability to pass increases in programming costs on to hotels is limited by certain of On Command's contracts with hotels.

*Other Hotel and Guest Services.* In addition to entertainment services, On Command provides other guest services to the hotel industry. These additional services use the two-way interactive communications capability of On Command's equipment. Among the guest services provided are video check-out, room service ordering and guest satisfaction surveys. Guest services are available in various foreign languages.

*Sales and Marketing.* Historically, substantially all of On Command's growth in rooms served was derived from obtaining contracts with hotels in the United States not under contract with existing vendors or whose contracts with other vendors were expiring or have expired. On Command believes that the opportunity for additional growth in rooms served in the deluxe, luxury and upscale hotel markets in the United States is

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more limited than in the past since most of the hotels in these categories are under contract with On Command or its competitors. Therefore, On Command has broadened its strategy for obtaining new hotel customers to target both smaller hotels and lower cost hotels. Management anticipates that the lower costs and flexibility associated with the MiniMate™ version of On Command's OCX® system will make marketing to smaller hotels and lower cost hotels more economically attractive than in the past. On Command began marketing the MiniMate™ platform during the fourth quarter of 2002. Under On Command's current marketing plan, hotels will enter into agreements that will provide for (i) the purchase by the hotels of the MiniMate™ system; (ii) the licensing of the hotels to use On Command's proprietary software, and (iii) the performance of video system maintenance services by On Command. Hotels that purchase the MiniMate™ platform will receive a contractual percentage of the net margin generated by the MiniMate™ video system. No assurance can be given that MiniMate™ system will be successfully marketed to smaller hotels, or that On Command will be successful in the execution of its strategy to use the MiniMate™ system to broaden its target market. For additional information concerning the MiniMate™ video system, see Video Systems OCX® Video System.

In addition to broadening its strategy to obtain new customers, On Command is focusing on increasing the revenue derived from each equipped room by developing and, to the extent economically feasible, implementing new technologies that will enhance On Command's ability to manage its existing products and/or allow On Command to introduce new or more technologically advanced systems or products, and by selectively increasing prices.

On Command markets its services to hotel guests primarily by means of on-screen advertising that highlights the services and motion picture selections for the month. During the year ended December 31, 2002 and the six months ended June 30, 2003, On Command upgraded certain of its OCX® and OCV® video systems to provide a full-motion video and audio promotional screen. During the six months ended June 30, 2003, On Command also began to deploy a new graphical interface that provides for an enhanced menu in all of its OCX® systems that use a digital content storage sub-system. For additional information concerning planned upgrades of On Command's video systems, see Video Systems above.

*Hotel Contracts.* For some of On Command's large customers, On Command negotiates and enters into a single master contract covering all hotels owned, and in some cases, managed or franchised by the hotel chain customer. A master contract typically provides for the financial and operational terms that govern the provision of in-room services. In some cases, the economic and other terms of a contract with an individual hotel may be different from those contained in the applicable master contract. In this regard, the contractual relationship with an individual hotel that is covered by a master contract generally has a duration that commences on the date that On Command's video system becomes operational in that hotel. Accordingly, the expiration date of the contractual relationship with any such hotel is largely independent from the expiration date of the applicable master contract. Furthermore, upon expiration, On Command's contracts typically convert into month-to-month arrangements that generally remain in effect until such time as On Command is able to enter into new or renewed contracts, or a competitor is able to install its proprietary equipment in the applicable hotels. Notwithstanding the foregoing, a limited number of On Command's master contracts provide for the simultaneous expiration of On Command's contractual relationships with all of the individual hotels that are subject to such a master contract. For additional information concerning the expiration of hotel chain contracts, see Significant Customers below. In the case of hotels that are not covered by master contracts, On Command generally executes contracts separately with each hotel. On Command's existing contracts, whether master contracts or contracts with individual hotels, generally have terms ranging from five to seven years.

Under its existing contracts, On Command generally installs its system into the hotel at On Command's cost, and On Command generally retains ownership of all equipment used in providing the service. However, as discussed under Sales and Marketing above, in the case of the recently introduced MiniMate™ system, On Command's marketing plan is to sell the MiniMate™ system to hotels. In certain cases, On Command has entered into master contracts whereby On Command has agreed to purchase televisions and/or provide other forms of capital assistance and, to a lesser extent, provide television maintenance services to hotels during the respective terms of the applicable contracts. However, On Command generally seeks to avoid entering into

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new contracts or renewals that require On Command to provide capital assistance or television maintenance services unless other terms of the contract make it economical for On Command to do so.

On Command's contracts with hotels generally provide that On Command will be the exclusive provider of in-room, pay-per-view entertainment services to the hotel and generally permit On Command to set its prices. Under certain circumstances, certain hotel customers have the right to prior approval of any price changes, which approval may not be unreasonably withheld. On Command's contracts with hotels typically set forth the terms governing On Command's provision of free-to-guest programming as well. Depending on the contract, On Command may or may not be the exclusive provider of free-to-guest programming, and in cases where On Command is not the exclusive provider, certain of On Command's contracts require On Command to make payments to hotels to subsidize the cost to the hotels of using another free-to-guest programming provider. Most of On Command's contracts with hotels contain provisions that limit the amount of programming cost increases that may be passed on to the hotels for the free-to-guest service. As a result of these limitations, increases in free-to-guest programming revenue have not kept pace with increases in the corresponding programming costs, and the amount of revenue derived from On Command's free-to-guest service has been less than the aggregate cost to On Command of the corresponding programming during each of the past three years. On Command is currently working with its programming vendors and hotels to mitigate the shortfall. In this regard, as On Command enters into new contracts, or renews existing contracts, with hotels, On Command seeks to maximize the amount of free-to-guest programming cost increases that are permitted to be passed on to hotels while limiting the overall cost of the free-to-guest channel line-up that is required to be provided.

The hotels collect fees from their guests and, in most cases, the hotels retain a commission equal to a negotiated percentage of the net revenue generated from On Command's video systems. The amount of the commission varies depending on the overall economics of the applicable contract and other factors. Some contracts also require On Command to upgrade systems to the extent that new technologies and features are introduced during the term of the contract. At the scheduled expiration of a contract, On Command generally seeks to extend the agreement on terms that are based upon the competitive situation in the market. As of June 30, 2003, contracts covering approximately 35% of On Command's equipped rooms have expired, or are scheduled to expire, if not renewed, by December 31, 2004. For information concerning On Command's relationships with its significant hotel chain customers, see *Significant Customers* below.

*Markets and Customers.* On Command currently provides entertainment and information services to hotels that are associated with major hotel chains, management companies and independent hotels including Marriott®, Hilton, Six Continents®, Hyatt®, Starwood, Wyndham Hotels and Resorts®, Radisson®, Four Seasons, Fairmont and other select hotels. The majority of On Command's hotel customers are located in the United States, with the balance located primarily in Canada and Mexico.

*Significant Customers.* Hotels owned, managed or franchised by Marriott International, Inc. ( *Marriott* ), Hilton Hotels Corporation ( *Hilton* ), InterContinental Hotel Group (formerly Six Continents Hotels, Inc.) ( *InterContinental* ), Hyatt Hotel Corporation ( *Hyatt* ), and Starwood Hotels and Resorts Worldwide, Inc. ( *Starwood* ) accounted for 33%, 14%, 11%, 7% and 7%, respectively, of On Command's total net room revenue for the six months ended June 30, 2003, and 30%, 16%, 12%, 7% and 7%, respectively, of On Command's total net room revenue for the year ended December 31, 2002. Accordingly, hotels owned, managed or franchised by On Command's five largest hotel chain customers accounted for 72% of On Command's total net room revenue during the six months ended June 30, 2003 and the year ended December 31, 2002. The loss of any of these hotel chain customers, or the loss of a significant number of other hotel chain customers, could have a material adverse effect on On Command's results of operations and financial condition.

On March 21, 2001, On Command and Marriott entered into a master agreement pursuant to which On Command distributes its services in hotel rooms owned or managed by Marriott. In addition, On Command has the opportunity to enter into agreements to provide its services to additional hotel rooms franchised by Marriott. The master agreement with Marriott expires on the date when the last contract with a hotel that is owned or managed by Marriott and that is entered into under the master agreement expires. At June 30, 2003,

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On Command provided entertainment services to approximately 166,000 rooms that were owned or managed by Marriott, and approximately 89,000 rooms that were franchised by Marriott.

On Command's master contract with Hilton expired in April 2000, and in October 2000, Hilton announced that it would not be renewing such master contract. As a result, domestic hotels owned, managed or franchised by Hilton are currently subject to a master contract between Hilton and a competitor of On Command. Accordingly, On Command anticipates that domestic hotels owned by Hilton will not renew their contracts with On Command as they expire. However, domestic hotels that are managed or franchised by Hilton are not precluded from renewing their contracts with On Command, and, although no assurance can be given, On Command anticipates that certain of those domestic hotels will choose to renew with On Command. At June 30, 2003, On Command provided service to approximately 117,000 rooms in 506 domestic hotels that are owned, managed or franchised by Hilton. The majority of these rooms are located in managed or franchised hotels that are not owned by Hilton. Through June 30, 2003, On Command's contracts with 65 of the aforementioned 506 hotels (16,000 rooms) had expired and service to these hotels is currently provided under monthly or other short-term renewals. On Command's individual contracts with the remaining 441 domestic Hilton hotels (101,000 rooms) expire at various dates through 2010, with 46% of those rooms expiring by 2005. In the period from January 1, 2002 through June 30, 2003, On Command entered into new contracts, or renewed existing contracts, with respect to 9,300 domestic rooms that were franchised by Hilton, and 2,600 domestic rooms that were managed by Hilton. The net room revenue derived from domestic hotels that were owned, managed, or franchised by Hilton decreased approximately 18% during the six months ended June 30, 2003, as compared to the corresponding prior year period. Over time, On Command anticipates that the revenue it derives from hotels that are owned, managed or franchised by Hilton will continue to decrease. However, due to the uncertainties involved, On Command is currently unable to predict the amount and timing of the revenue decreases.

On Command does not have master contracts with either Starwood or InterContinental, and On Command's master contract with Hyatt provides for the simultaneous expiration of On Command's contractual relationships with all of the individual hotels that are subject to the Hyatt master contract as of December 31, 2004. At June 30, 2003, On Command provided entertainment services to approximately 60,000 rooms in hotels that are owned, managed or franchised by Hyatt, and approximately 176,000 rooms in hotels that are owned, managed or franchised by Starwood or InterContinental. Agreements with respect to approximately 45% of such Starwood and InterContinental rooms have already expired, or will expire by December 31, 2004. At June 30, 2003, approximately 37,000 or 59% of On Command's Starwood rooms were located in Sheraton or Four Points hotels that, depending on whether such hotels are owned, managed or franchised by Starwood, may be covered by a master contract with a competitor of On Command upon the expiration of such hotels' contracts with On Command. On Command is actively pursuing master agreements with InterContinental, with Starwood with respect to the Starwood brands that are not already covered by a competitor's contract, and with Hyatt for the period after December 31, 2004.

In certain cases, On Command is also pursuing direct contractual relationships with individual hotels that are owned, managed or franchised by these hotel chains. No assurance can be given that On Command will be successful in executing master or individual hotel contracts. However, On Command expects that, regardless of the expiration dates of master contracts or individual contracts with hotels, On Command will continue to be the provider of in-room entertainment services for individual hotels that are not under contract until such time as a competitor's equipment can be installed.

Overall hotel occupancy rates, as reported by Smith Travel Research, declined 1.5% during the six months ended June 30, 2003, as compared to the corresponding prior year period. In addition, occupancy rates for hotels in the top 25 markets, as reported by Smith Travel Research, declined 1.7% over the same period. Since On Command derives a significant portion of its revenue from hotels located in the top 25 markets, On Command believes that the occupancy rate for this segment is the best indicator of the impact changes in hotel occupancy are having on On Command's business. Hotel occupancy rates are outside of On Command's control, and changes in hotel occupancy rates can have a significant impact on On Command's results of operations.

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*Installation And Service Operation.* At June 30, 2003, On Command's installation and service organization consisted of approximately 316 installation and service employees. On Command's installation and service employees are responsible for system maintenance and distribution of video and audio content for all of the hotel rooms served by On Command. On Command's installation employees also prepare site surveys to determine the type of equipment to be installed at each hotel, install systems, train the hotel staff to operate the systems and perform quality control tests. On Command also uses local installation subcontractors supervised by full-time On Command employees to install its systems.

On Command uses a third party vendor to maintain a toll-free technical support hot line that is monitored 24 hours a day by trained support technicians. The on-line diagnostic capability of the OCX® video system, OCV® video system and SpectraVision® systems enables technicians to identify and resolve a majority of the reported system malfunctions from On Command's service control center without visiting the hotel property. Should a service visit be required, the modular design of the OCX® video system, OCV® video system and SpectraVision® systems generally permit service personnel to replace defective components at the hotel site.

*Technology Research and Development.* On Command develops technologies to be used in its video systems to support and enhance their operations, and develops new applications. On Command incurred costs of approximately \$2,000,000, \$4,064,000, \$5,600,000 and \$8,734,000 during the six months ended June 30, 2003 and the years ended December 31, 2002, 2001 and 2000, respectively, related to research and development.

On Command's product development philosophy is to design and integrate components for high quality entertainment and information systems that incorporate features allowing On Command to add system enhancements as they become commercially available and economically viable. The high speed, two-way digital communications capability of OCX® video systems enables On Command to provide advanced interactive features such as video games and television-based Internet access in addition to basic guest services such as video checkout and guest survey.

On Command's systems incorporate proprietary communications system designs with commercially manufactured components and hardware such as video cassette players, digital video disk players, other digital storage media, televisions, amplifiers and computers. Because On Command's systems generally use industry standard interfaces, On Command can often economically integrate new technologies as they become viable.

On Command is in the process of developing applications of Internet Protocol technology for use in On Command's video systems. No assurance can be made that On Command will be successful in developing economically viable applications of Internet Protocol technology.

*Suppliers.* On Command contracts directly with various electronics firms for the manufacture and assembly of its systems hardware, the design of which is controlled by On Command. Historically, these suppliers have been dependable and able to meet delivery schedules on time. Certain electronic component parts used with On Command's products are available from a limited number of suppliers and can be subject to the supplier discontinuing the production of such part. In such event, On Command is given the opportunity to initiate a last time purchase of the applicable part, which provides On Command adequate inventory. If adequate inventory is not available, On Command could experience a temporary reduction in the rate of new installations and/or an increase in the cost of such installations. However, On Command believes that, in the event of a termination of any of its suppliers or the discontinuance of certain electronic components, alternate suppliers or parts can be located without incurring significant costs or delays. Historically these events have not had a significant impact on the timing and/or costs of On Command's installations.

The head-end electronics for On Command's systems are assembled at On Command's facilities for testing prior to shipping. Following assembly and testing of equipment for a particular hotel, the system is shipped to each location, where On Command-employed and trained technicians install the system, typically assisted by independent contractors.

On Command maintains direct contractual relations with various suppliers of pay-per-view and guest programming services, including the motion picture studios and/or their domestic and international distribu-

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tors and programming networks, as well as suppliers of video games and Internet services. For information concerning On Command's relationships with such content suppliers, see "Services" above. In general, On Command believes its relationships with suppliers are good.

*Competition.* There are numerous providers of in-room entertainment services to the hotel industry. Market participants include, but are not limited to, (i) other full service in-room providers, such as LodgeNet Entertainment Corporation (LodgeNet), Hospitality Network (Hospitality), NXTV, Inc (NXTV), SeaChange International, Inc., KoolConnect Technologies, Inc. (KoolConnect) and other providers in international markets, (ii) cable television companies, such as Comcast Corporation, Time Warner, Inc., and Cox Communications, Inc., (iii) direct broadcast satellite services, such as DirecTV and the DISH Network, (iv) television networks and programmers, such as ABC, NBC, CBS, FOX, HBO®, STARZ!®, and Showtime, (v) Internet service providers, such as Time Warner, Inc., (vi) broadband connectivity companies, such as STSN, Inc. and (vii) other telecommunications companies. In addition, On Command's services compete for a guest's time and entertainment resources with other forms of entertainment and leisure activities. On Command anticipates that it will continue to face substantial competition from traditional as well as new competitors and that certain of these competitors have greater financial resources and better access to the capital markets than On Command. Many of On Command's potential competitors are developing ways to use their existing infrastructure to provide in-room entertainment and/or informational services. Certain of these competitors are already providing guest programming services and are beginning to provide video-on-demand, Internet and high-speed connectivity services to hotels. At June 30, 2003, On Command served approximately 885,000 rooms world wide, of which approximately 872,000 are served by on-demand systems. Based on publicly available information, On Command estimates that, at June 30, 2003, LodgeNet and Hospitality provided service to approximately 972,000 and 101,000 rooms, respectively.

Competition with respect to the provision of in-room entertainment and information systems centers on a variety of factors, depending upon the circumstances important to a particular hotel. Among the more important factors are (i) the financial terms and conditions of the proposed contract, (ii) the features and benefits of the entertainment and information systems, and (iii) the quality of the vendor's technical support and maintenance services. With respect to hotel properties already receiving in-room entertainment services, the current provider may have certain informational and installation cost advantages compared to outside competitors.

On Command anticipates that it will face substantial competition in obtaining new contracts with major hotel chains. On Command believes that hotels view the provision of in-room on-demand entertainment and information services both as a revenue source and as a source of competitive advantage because sophisticated hotel guests are increasingly demanding a greater range of quality entertainment and information alternatives. At the same time, On Command believes that certain major hotel chains have awarded contracts based primarily on the level and nature of financial and other incentives offered by the service provider. While On Command believes it will continue to enter into contractual arrangements that are attractive to both On Command and its hotel customers, its competitors may attempt to maintain or gain market share at the expense of profitability. On Command may not always be willing or able to match incentives provided by its competitors.

The communications industry is subject to rapid technological change. New technological developments could adversely affect On Command's operations unless On Command is able to provide equivalent services at competitive prices.

*Regulation.* The Communications Act of 1934, as amended by the Cable Communications Policy Act of 1984, the Cable Television Consumer Protection and Competition Act of 1992 and the Telecommunications Act of 1996, governs the distribution of video programming by cable, satellite or over-the-air technology, through regulation by the Federal Communications Commission (FCC). However, because On Command's video distribution systems do not use any public rights of way, they are not classified as cable systems and are subject to minimal regulation. Thus, the FCC does not directly regulate the pay-per-view or guest programming provided by On Command to hotel guests.



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The Internet-based services offered by On Command potentially may be affected by various laws and governmental regulations. There are currently few laws or regulations directly applicable to access to or commerce on commercial online services or the Internet. However, because of the increasing popularity and use of commercial online services and the Internet, a number of laws and regulations may be adopted with respect to commercial online services and the Internet. For example, the Internet Tax Freedom Act, which was extended through November 1, 2003, placed a moratorium on new state and local taxes on Internet access and commerce. Legislation that would extend this moratorium is pending in Congress. Other Internet-related laws and regulations may cover issues such as user privacy, defamatory speech, copyright infringement, pricing and characteristics and quality of products and services. The adoption of such laws or regulations in the future may slow the growth of commercial online services and the Internet, which could in turn cause a decline in the demand for On Command's Internet-based services and products or otherwise have an adverse effect on On Command. Moreover, the applicability to commercial online services and the Internet of existing laws governing issues such as property ownership, libel, personal privacy and taxation is uncertain and could expose On Command to liability.

Although the FCC generally does not directly regulate the services provided by On Command, the regulation of video distribution and communications services is subject to the political process and has been in constant flux over the past decade. Further material changes in the law and regulatory requirements must be anticipated and there can be no assurance that On Command's business will not be adversely affected by future legislation or new regulations.

On Command is required to have performance licenses to the extent that its services utilize copyrighted music. On Command has one agreement in place and is negotiating a second agreement with organizations that represent rights holders. In addition, certain programming distributed by On Command is acquired pursuant to agreements that require performance licenses to be obtained by On Command's suppliers. IMN has separate performance licenses in place with two groups that represent rights holders, one of which is on an interim basis, and is attempting to negotiate a third license. Music performance licensing rights have been the subject of industry-wide arbitration and/or litigation for a number of years. Depending upon the outcome of on-going proceedings and On Command's negotiations, the performance license fees for such distribution may increase over the course of time.

*Patents, Trademarks And Copyrights.* On Command holds a number of patents and patent licenses covering various aspects of its pay-per-view and interactive systems primarily related to the OCV® video system. The patents expire between 2007 and 2015. With the rate of technological development currently being experienced, a patent's utility and value may diminish before the end of its respective term. Currently, On Command is pursuing patent protection of elements of the OCX® and Roommate video systems. In connection with a negotiated settlement agreement with LodgeNet in 1998, On Command and LodgeNet have cross-licensed certain of each other's patented technology and have also agreed not to engage in patent litigation against one another through 2003.

On Command holds United States trademarks for all significant names that it uses, including Blue Box®, On Command®, OCV®, SpectraVision® and OCX®. The federal registration of these trademarks expires between 2004 and 2011 if not renewed.

On Command has trademark applications pending in the United States Patent and Trademark Office for the Roommate®, MiniMate® and TeleMate® trademarks.

*International Markets.* At June 30, 2003, On Command provided services to approximately 99,000 international rooms located primarily in Canada and Mexico. On Command's operations in foreign markets involve certain risks that are not associated with On Command's operations in the United States, including availability of programming, government regulation, currency fluctuations, language barriers, differences in signal transmission formats, local economic and political conditions and restriction on foreign ownership and investment.

As a result of transactions that occurred in the first quarter of 2001 and the third quarter of 2002, On Command has disposed of its controlling interests in all of its Asia-Pacific subsidiaries and most of its

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European subsidiaries. For additional information concerning these transactions and for financial information concerning On Command's geographic territories, see notes 4, 5 and 13 to the accompanying Consolidated Financial Statements of On Command, Years ended December 31, 2002, 2001 and 2000.

*Licenses And Other System Sales.* On Command sells systems to certain other providers of in-room entertainment including Allin Interactive, which is licensed to install On Command's equipment on cruise ships; Techlive Limited, formerly known as On Command Europe Limited, which is licensed to use On Command's system to provide service in Europe and the Middle East; and MagiNet Corporation, which is licensed to use On Command's system to provide service in the Asia marketplace. In addition, IMN sells in-room digital music systems and licenses software to Hospitality, and licenses content to Hospitality and LodgeNet.

*Seasonality.* The amount of revenue realized by On Command each month is affected by a variety of factors, including among others, hotel occupancy rates, business and leisure travel patterns, general economic conditions, changes in the number of rooms served, the number of business days in a month, and holidays. With the exception of December, which is generally On Command's lowest month for revenue, On Command typically does not experience significant variations in its monthly revenue that can be attributed solely to seasonal factors.

*Employees.* As of June 30, 2003, On Command employed a total of 636 persons. None of On Command's employees are represented by a labor union. On Command has experienced no work stoppages and believes employee relations are good.

*Properties.* On Command has two leases, which expire in June 2005 and May 2006, for approximately 25,700 square feet and 7,500 square feet, respectively, for its corporate headquarters in Denver, Colorado. On Command also has a lease that expires in February 2008 for 76,972 square feet of light manufacturing and storage space in Denver, Colorado. On Command has another lease, which expires in June 2004, for approximately 131,000 square feet of leased office, light manufacturing and storage space in San Jose, California, a portion of which has been subleased and the majority of the remainder of which On Command is attempting to sublease. On Command has a number of other small leases for small parcels of property throughout the United States, Canada and Mexico. On Command's properties are suitable and adequate for On Command's business operations.

*Legal Proceedings.* On Command's material legal proceedings are set forth below:

On Command has received a series of letters from Acacia Media Technologies Corporation regarding a portfolio of patents owned by Acacia. Acacia has alleged that its patents cover certain activities performed by On Command and has proposed that On Command take a license under those patents. On Command believes there are substantial arguments that Acacia's claims lack merit.

On Command is a defendant in the Class Action Lawsuit, as described above in the section entitled "The Merger - Certain Litigation," on page 47.

In July 2003, Broadcast Music, Inc. (BMI) and various other plaintiffs filed suit against On Command in the United States District Court for the Southern District of New York, Case Number 03 CV 5531, for willful copyright infringement. The plaintiffs allege that On Command has failed to obtain permission to publicly perform BMI musical works contained in the motion pictures and videos On Command transmits to hotels and motels for viewing in guest rooms on a pay-per-view basis. On Command has been in negotiations with BMI for a performance license and intends to continue such negotiations. On Command does not believe that the ultimate resolution of this matter will have a material adverse effect on its financial condition or results of operations.

On Command is a defendant, and may be a potential defendant, in other lawsuits and claims arising in the ordinary course of its business. While the outcomes of such claims, lawsuits, or other proceedings cannot be predicted with certainty, management expects that such liability, to the extent not provided for by insurance or otherwise, will not have a material adverse effect on the financial condition of On Command.

**Table of Contents****Executive Officers of On Command**

The following lists the executive officers of On Command who will continue as executive officers of the surviving corporation of the merger, their birth dates, a description of their business experience and positions held with On Command as of September 30, 2003. The directors of the surviving corporation of the merger will be individuals who also serve as directors of Liberty Media.

Name	Position
Christopher Sophinos Born January 26, 1952	Has served as Director of On Command since December 2002. Has been President of On Command since April 2001 and Chief Executive Officer since October 2001. Mr. Sophinos has also served as Senior Vice President of Liberty Satellite since April 2000. Mr. Sophinos served as President of Liberty Satellite from September 1997 to April 2000 and as Senior Vice President of Liberty Satellite from February 1996 until September 1997. Mr. Sophinos served as Senior Vice President of PRIMESTAR, Inc. (now known as Phoenixstar, Inc.) from April 1998 until August 1999. Mr. Sophinos served as the President of Boats Unlimited, a retail boat dealership, from November 1993 to September 1998.
Bernard G. Dvorak Born April 19, 1960	Has been Senior Vice President, Chief Financial Officer and Treasurer of On Command since July 2002. Mr. Dvorak was Chief Executive Officer and a member of the board of directors of Formus Communications, Inc., a provider of fixed wireless services in Europe, from September 2000 until June 2002, and from April 1999 until September 2000, he served as Chief Financial Officer of Formus Communications, Inc. On March 28, 2001, an involuntary petition under Chapter 7 of the United States Bankruptcy Code was filed against Formus Communications, Inc. in the United States Bankruptcy Court for the District of Colorado. From February 1998 until April 1999, Mr. Dvorak was President, Chief Executive Officer and a member of the board of directors of Cordillera Communications Corp., a specialized mobile radio operator in Latin America, and from February 1997 until February 1998, he served as Chief Financial Officer of Cordillera Communications Corp.
David A. Simpson Born February 19, 1958	Has been Senior Vice President and Chief Technology Officer of On Command since August 2003; Senior Vice President of Research & Development and Engineering of On Command from July 2001 to August 2003; and Senior Vice President of Research & Development, Operations and Engineering from October 2000 until July 2001. Mr. Simpson was Vice President, Operations of On Command, from July 1998 until October 2000. From January 1997 until June 1998, Mr. Simpson founded HomeIntranet, Inc., a start-up venture formed to design and market an integrated residential gateway device to simplify television, voice, data and home automation.
Laurence M. Smith Born April 16, 1959	Has been Senior Vice President of Distribution and Programming for On Command since August 2003 and Senior Vice President of Sales and Distribution from November 2001 until August 2003. From August 2001 to November 2001, Mr. Smith served as a consultant for On Command. Mr. Smith was Executive Vice President of Sales and Marketing for IntelliReady, Inc., a provider of wiring and technology for entertainment, communication and data networks, from October

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Name	Position
	2000 until June 2001, and President of Sun Valley Resources, Inc., a start-up applications service provider serving professional employment organizations, from February 2000 until October 2000. From November 1996 until January 2000, Mr. Smith was co-founder and Executive Vice President of Internet Gift Registries, Inc., an e-commerce start-up venture.
Pamela J. Strauss Born September 5, 1960	Has been Senior Vice President, General Counsel and Secretary of On Command since January 2002, and Vice President, General Counsel and Secretary since June 2001. Ms. Strauss has also served as General Counsel of Liberty Satellite since February 2000, and Secretary of Liberty Satellite since April 2000. Ms. Strauss served as Corporate Counsel for Liberty Satellite from April 1994 to April 1998, and Assistant Secretary from December 1996. Ms. Strauss has also served as Associate General Counsel for Phoenixstar, Inc. since April 1998, Secretary since July 1999 and Assistant Secretary from August 1997 to June 1999.

There are no family relations by blood, marriage or adoption of first cousin or closer, among the above-named directors and executive officers.

During the past five years, none of the persons named above has had any involvement in such legal proceedings as would be material to an evaluation of his or her ability or integrity.

**Executive Compensation of On Command***Summary Compensation Table*

The following table is a summary of all forms of compensation paid by On Command to the officers named therein (the Named Executive Officers ) for services rendered in all capacities to On Command for the fiscal years ended December 31, 2002, 2001 and 2000 (total of five persons).

Name and Position	Year	Salary (\$)	Bonus (\$)	Other annual compensation (\$)	Restricted stock award(s) (\$)	Securities underlying options/SARs (#)	All other compensation (\$)(5)
Christopher Sophinos(1)	2002	324,989	50,000			150,000	5,500
President and Chief Executive Officer	2001 2000	201,262				200,000	
Bernard G. Dvorak(2)	2002	114,333				100,000	3,033
Senior Vice President and Chief Financial Officer and Treasurer	2001 2000						
David A. Simpson	2002	299,063				100,000	5,500
Senior Vice President, Chief Technical Officer	2001 2000	290,000 212,855	19,812			100,000	12,114 6,281
Laurence M. Smith(3)	2002	240,631				50,000	5,500
Senior Vice President, Distribution and Programming	2001 2000	69,846				100,000	40
Pamela J. Strauss(4)	2002	167,842	35,000			50,000	5,500
Senior Vice President and General Counsel	2001 2000	113,811				50,000	

- (1) Mr. Sophinos became President of On Command on April 27, 2001. Although Mr. Sophinos has continued to perform duties as an officer of Liberty Satellite, Mr. Sophinos has devoted substantially all of his time to On Command since April 27, 2001. As such, On Command has been responsible for Mr. Sophinos' compensation since May 1, 2001, and the 2001 compensation in the table represents the

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- amount paid to reimburse Liberty Satellite for Mr. Sophinos' compensation for the eight months ended December 31, 2001. On Command commenced paying Mr. Sophinos' salary directly in January 2002.
- (2) Mr. Dvorak became Senior Vice President, Chief Financial Officer and Treasurer in July 2002. Accordingly, the 2002 compensation information included in the table represents five and one-half months of employment.
- (3) Mr. Smith became Senior Vice President of Sales and Distribution for On Command in November 2001. From August 2001 to November 2001, Mr. Smith served as a consultant to On Command. Accordingly, the 2001 compensation information included in the table represents two months of employment and three months of consulting services.
- (4) Ms. Strauss became Vice President, General Counsel and Secretary of On Command in June 2001. Although Ms. Strauss has continued to perform duties as an officer of Liberty Satellite, Ms. Strauss has devoted substantially all of her time to On Command since June 2001. As such, On Command has been responsible for Ms. Strauss' compensation since June 2001, and the 2001 compensation in the table represents the amount paid to reimburse Liberty Satellite for Ms. Strauss' compensation for the seven months ended December 31, 2001. On Command commenced paying Ms. Strauss' salary directly in January 2002.
- (5) Other compensation includes: contributions by On Command on behalf of the executives to the On Command 401(k) Plan. The On Command 401(k) Plan provides employees with an opportunity to save for retirement by contributing up to 15% of their eligible earnings in several different mutual funds. On Command, by resolution of the Board of Directors, generally contributes up to 50% of the amount contributed by the employee up to maximum matching contribution of 4%. Participant contributions to the On Command 401(k) Plan are fully vested upon contribution.
- Option Grants in Last Fiscal Year*

**Individual Grants**

	<b>Number of securities underlying options granted (1)</b>	<b>Percent of total options granted to employees in fiscal year (2)</b>	<b>Exercise or base price (\$/Share) (3)</b>	<b>Expiration date</b>	<b>Grant date present value \$(4)</b>
Christopher Sophinos	150,000	11.7%	5.45	1/22/12	573,000
Bernard G. Dvorak	100,000	7.8%	1.10	7/8/12	77,000
David A. Simpson	100,000	7.8%	5.45	1/22/12	382,000
Laurence M. Smith	50,000	3.9%	5.45	1/22/12	191,000
Pamela J. Strauss	50,000	3.9%	5.45	1/22/12	191,000

- (1) The options expire ten years from grant date and vest 20% annually over five years.
- (2) The total number of options granted to On Command employees in 2002 was 1,282,000.
- (3) Represents the closing market price per share of On Command common stock on the date of the grant.
- (4) On Command used the Black-Scholes option pricing model to determine grant date present values using the following assumptions for the year 2002: stock price volatility of 86.3%; a five year option term; a discount rate equal to the one-year Treasury Bill rate at the date of grant; the closing price of On Command common stock on the date of grant; and an expected dividend rate of zero. Forfeitures are reflected as they occur. The use of this model is in accordance with SEC rules; however the actual value of an option will be measured by the difference between the stock price and the exercise price on the date the option is exercised. Accordingly, the realized value, if any, will not necessarily be the value determined by the model.

**Table of Contents***Option Exercises And Fiscal Year-End Values*

The following table provides, for the Named Executive Officers, information on (i) the exercise during the year ended December 31, 2002 of options with respect to shares of On Command common stock, (ii) the number of shares of On Command common stock represented by unexercised option owned by them at December 31, 2002 and (iii) the value of those options as of the same date.

*Aggregated Option Exercises in 2002, and Year-End Option Values*

	Shares underlying options exercised	Value realized	Number of securities underlying unexercised options at 12/31/02		Value of in-the-money options at 12/31/02	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Christopher Sophinos			40,000	310,000		
Bernard G. Dvorak				100,000		
David A. Simpson			99,000	166,000		
Laurence M. Smith			20,000	130,000		
Pamela J. Strauss			10,000	90,000		

*Employment and Severance Arrangements*

*The Executive Severance Plan.* On May 1, 2002, On Command adopted the 2002 Executive Severance Pay Plan. Employees eligible to participate under the Executive Severance Pay Plan include On Command's Senior Vice Presidents, Executive Vice Presidents, President and Chief Executive Officer. Under the Executive Severance Pay Plan, an eligible employee may receive certain payments and benefits in the event such employee's employment (i) is terminated by On Command as a result of a layoff, reduction in force, or as part of a corporate transaction involving On Command where the employee is not offered comparable employment with the entity involved in the corporate transaction with On Command, or (ii) is terminated by the employee for good reason. A termination of employment by the employee will be considered "good reason" if the employee terminates his or her employment because the employee is relocated by On Command or a successor-in-interest to On Command to a primary job location more than 50 miles from the employee's prior job location with On Command or because the employee's base wage rate is reduced by any amount. The plan administrator has the sole discretion to determine whether these conditions are met.

Under the Executive Severance Pay Plan, if an executed waiver and release agreement is delivered by the eligible employee to On Command within the period specified by On Command, eligible employees are entitled to payment as follows:

Title of Eligible Employee	Amount of Compensation
Senior Vice President	12 months
Executive Vice President	18 months
President or Chief Executive Officer	24 months

*Executive Officer's Loan*

On August 3, 1998, On Command loaned David A. Simpson, a Senior Vice President of On Command, \$175,000 in connection with his relocation. Interest on the loan accrued at an annual interest rate of 6.34%. Interest accrued annually but was not payable by Mr. Simpson until the last payment was made on the loan in accordance with the terms of the loan agreement. All principal amounts due under the loan were to be paid in three equal payments on December 31, 2002, 2003 and 2004. As of December 31, 2002, the outstanding balance on the loan to Mr. Simpson, including accrued interest, was approximately \$206,000. On February 5, 2003, all amounts due under this loan were repaid in full.

**Table of Contents****Security Ownership of Certain Beneficial Owners and Management of On Command***Security Ownership of Certain Beneficial Owners*

As of September 30, 2003, the voting securities of On Command consisted of 30,822,340 outstanding shares of On Command common stock, 13,500 issued and outstanding shares of Series A preferred stock and 60,000 shares of Series D preferred stock. As of such date, the 15,000 shares of Series B preferred stock and 10,000 shares of Series C preferred stock, that were then issued and outstanding were not entitled to vote in the election of directors or any other matter presented for the vote of stockholders of On Command generally. The following table lists stockholders (excluding any directors or officers of On Command) believed by On Command to be the beneficial owners of more than five percent of the outstanding voting securities as of September 30, 2003, based upon filings pursuant to Section 13(d) or (g) under the Securities Exchange Act of 1934, as amended. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock issuable upon exercise or conversion of options, warrants and convertible securities that were exercisable or convertible on or within 60 days after September 30, 2003, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the purposes of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Voting power in the table is computed with respect to a general election of directors. So far as is known to On Command, the persons indicated below have sole voting and investment power with respect to the shares indicated as believed to be owned by them except as otherwise stated in the notes to the table.

Name and address of beneficial owner	Title of class	Number of shares beneficially owned	Percent of class(1)
Liberty Media(2) 12300 Liberty Boulevard Englewood, CO 80112	Series A preferred stock		
	Series D preferred stock	60,000	100%
	On Command common stock	33,306,427	80.5%
Liberty Satellite(2) 12300 Liberty Boulevard Englewood, CO 80112	Series A preferred stock		
	Series D preferred stock	60,000	100%
	On Command common stock	33,306,262	80.5%
Credit Suisse First Boston(3) 11 Madison Avenue New York, NY 10010	Series A preferred stock		
	Series D preferred stock		
	On Command common stock	2,255,035	7.3%
Par Capital Management, Inc.(4) One Financial Center, Suite 1600 Boston, MA 02111	Series A preferred stock		
	Series D preferred stock		
	On Command common stock	2,044,865	6.6%
Gary Wilson(5) 300 Delfern Drive Los Angeles, CA 90077	Series A preferred stock		
	Series D preferred stock		
	On Command common stock	1,812,000	5.6%
Jerome H. Kern(6) 4600 S. Syracuse, Suite 1000 Denver, CO 80237	Series A preferred stock	13,500	100.0%
	Series D preferred stock		
	On Command common stock	1,350,000	4.2%

(1) Based on 13,500 shares of the Series A preferred stock, 60,000 shares of the Series D preferred stock and 30,822,340 shares of On Command common stock outstanding as of September 30, 2003. On Command's Series B preferred stock and Series C preferred stock were not voting securities as of September 30, 2003.

(2) Based upon information contained in a Schedule 13D/A jointly filed on April 21, 2003 by Liberty Media and Liberty Satellite and adjusted for an increase in shares issuable upon the conversion of shares of Series D preferred stock as a result of the conversion of the accrued and unpaid dividends on such stock as of September 30, 2003. Of the shares shown as beneficially owned by Liberty Media and Liberty Satellite, 33,306,262 shares are beneficially owned by Liberty Satellite's subsidiary, Ascent Entertainment Group, Inc., which number includes 1,123,792 shares of On Command common stock issuable upon the exercise of Series A Warrants that were exercisable as of September 30, 2003, but that have





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since expired and (ii) 7,947,020 shares of On Command common stock issuable upon the conversion of shares of Series D preferred stock and (iii) 1,457,003 shares of On Command common stock issuable upon the conversion of shares of Series D preferred stock as a result of the conversion of the accrued and unpaid dividends on such stock. Liberty Media also beneficially owns, and has sole voting and dispositive power with respect to 165 shares of On Command common stock, which represents less than 1% of the issued and outstanding shares of On Command common stock. Of such 165 shares beneficially owned by Liberty Media, 40 of such shares consist of shares of On Command common stock issuable upon the exercise of Series B Warrants that were exercisable as of September 30, 2003, but that have since expired. Each Series B Warrant represents the right to acquire one share of On Command common stock. Liberty Media and Liberty Satellite share the voting and dispositive power with respect to 33,306,427 shares of On Command common stock. Liberty Satellite owns a controlling interest in On Command, and Liberty Media owns a controlling interest in Liberty Satellite.

- (3) Based upon information contained in a Schedule 13G filed with the SEC on February 14, 2002 by Credit Suisse First Boston (the Bank ). The Bank shares voting and dispositive power over 2,255,035 shares of On Command common stock with its consolidated subsidiaries to the extent that they constitute a part of the investment banking business (the Reporting Person ) of Credit Suisse First Boston business unit (the CSFB business unit ). The ultimate parent company of the Bank is Credit Suisse Group ( CSG ), a corporation formed under the laws of Switzerland. CSG is a global financial services company with two distinct business units, one of which is the CSFB business unit. CSG, for purposes of the federal securities laws, may be deemed ultimately to control the Bank and the Reporting Person. CSG disclaims beneficial ownership of the 2,255,035 shares of On Command common stock beneficially owned by the Reporting Person.
- (4) Based upon information contained in a Schedule 13G filed with the SEC on February 14, 2003 by Par Investment Partners, L.P., Par Group, L.P. and Par Capital Management, Inc. The foregoing persons are hereinafter referred to collectively as the Par Reporting Persons. The Par Reporting Persons have sole voting and dispositive power over 2,044,865 shares of On Command common stock. Par Group, L.P. and Par Capital Management, Inc. are general partners of Par Investment Partners, L.P.
- (5) Includes 1,810,000 Series C Warrants to purchase the same number of shares of On Command common stock at a per share price of \$15.27. The Series C Warrants were exercisable as of September 30, 2003, but have since expired.
- (6) Mr. Kern holds 13,500 shares of Series A preferred stock, which are convertible, at Mr. Kern's option, into 1,350,000 shares of On Command common stock. Mr. Kern's ability to convert such shares into On Command common stock is contingent upon his repayment of \$26,213,000 owed to On Command as of September 30, 2003, pursuant to a promissory note.  
*Common Stock Ownership Of Management*

The following table sets forth information with respect to the beneficial ownership by each director and each of the Named Executive Officers of On Command and by all directors and executive officers as a group of shares of On Command common stock, Liberty Media Series A common stock ( Series A Liberty Media common stock ), Liberty Media Series B common stock ( Series B Liberty Media common stock ), Liberty Satellite Series A common stock ( Series A Liberty Satellite common stock ) and Liberty Satellite, Series B common stock ( Series B Liberty Satellite common stock ). Liberty Satellite owns a controlling interest in On Command and Liberty Media owns a controlling interest in Liberty Satellite.

The following information is given as of September 30, 2003 and, in the case of percentage ownership information, is based on (i) 30,822,340 shares of On Command common stock; (ii) 2,691,592,652 shares of Series A Liberty Media common stock; (iii) 211,818,776 shares of Series B Liberty Media common stock; (iv) 14,305,837 shares of Series A Liberty Satellite common stock; and (v) 34,765,055 shares of Series B Liberty Satellite common stock in each case outstanding on that date. Shares of On Command common stock issuable upon exercise or conversion of options and convertible securities that were exercisable or convertible on or within 60 days of September 30, 2003, and upon vesting of restricted stock, are deemed to be outstanding and to be beneficially owned by the person holding the options, warrants or convertible securities for the

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purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. So far as is known to On Command, the persons indicated below have the sole voting power with respect to the shares indicated as owned by them except as otherwise stated in the notes to the table.

Name of beneficial owner	Title of class	Number of shares beneficially owned	Percent of class	Voting power
<b>Pre-Merger Directors:</b>				
Kenneth G. Carroll	On Command common stock			
	Series A Liberty Media common stock	20,154(1)	*	*
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock	48,073(2)	*	*
	Series B Liberty Satellite common stock			
William R. Fitzgerald	On Command common stock	400	*	*
	Series A Liberty Media common stock	860,818(3)(4)	*	*
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock	52	*	*
	Series B Liberty Satellite common stock			
Paul A. Gould	On Command common stock	25,800(5)	*	*
	Series A Liberty Media common stock	1,671,136	*	*
	Series B Liberty Media common stock	600,344	*	
	Series A Liberty Satellite common stock			
	Series B Liberty Satellite common stock			
Mark K. Hammond	On Command common stock			
	Series A Liberty Media common stock			
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock			
	Series B Liberty Satellite common stock			
Gary S. Howard	On Command common stock	800	*	*
	Series A Liberty Media common stock	5,659,694(6)(7)	*	*
		(8)(9)(10)		
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock	58,021(11)	*	*
	Series B Liberty Satellite common stock			
Christopher Sophinos	On Command common stock	110,000(12)	*	*
	Series A Liberty Media common stock	5,140	*	*
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock	44,120(13)	*	*
	Series B Liberty Satellite common stock			
J. David Wargo	On Command common stock	51,200(14)	*	*
	Series A Liberty Media common stock	122,561(15)	*	*
	Series B Liberty Media common stock		*	
	Series A Liberty Satellite common stock			
	Series B Liberty Satellite common stock			
<b>Named executive officers:</b>				
Bernard G. Dvorak	On Command common stock	20,000(16)		

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	Series A Liberty Media common stock			
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock			
	Series B Liberty Satellite common stock			
David A. Simpson	On Command common stock	145,000(17)	*	*
	Series A Liberty Media common stock			
	Series B Liberty Media common stock			
	Series A Liberty Satellite common stock			
	Series B Liberty Satellite common stock			

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<b>Name of beneficial owner</b>	<b>Title of class</b>	<b>Number of shares beneficially owned</b>	<b>Percent of class</b>	<b>Voting power</b>
Laurence M. Smith	On Command common stock	50,000(18)	*	*
	Series A Liberty Media common stock			
	Series B Liberty Media common stock			
	Liberty Satellite Series A common stock			
Pamela J. Strauss	Liberty Satellite Series B common stock			
	On Command common stock	30,000(19)	*	*
	Series A Liberty Media common stock	4,619(20)	*	*
	Series B Liberty Media common stock			
All directors and officers as a group (11 persons)	Liberty Satellite Series A common stock	15,961(21)	*	*
	Liberty Satellite Series B common stock			
	On Command common stock	433,200	1.4%	1.4%
	Series A Liberty Media common stock	8,334,122	*	*
	Series B Liberty Media common stock	604,648	*	
	Liberty Satellite Series A common stock	166,227	1.3%	*
	Liberty Satellite Series B common stock			

\* Less than 1%.

- (1) Includes 7,448 shares held by the Liberty Media 401(k) Saving Plan for the benefit of Mr. Carroll.
- (2) Assumes the exercise in full of Liberty Satellite Series A common stock options to purchase 35,215 shares, all of which are exercisable on or within 60 days after September 30, 2003. Also includes 5,625 restricted shares issued in February 2001.
- (3) Assumes the exercise in full of Liberty Media Series A common stock options to purchase 816,394 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (4) Includes 8,224 shares held by the Liberty Media 401(k) Savings Plan for the benefit of Mr. Fitzgerald.
- (5) Assumes the exercise in full of On Command common stock options to purchase 25,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (6) Includes 291,089 restricted shares of Liberty Media Series A common stock held by a Grantor Retained Annuity Trust, none of which was vested at September 30, 2003.
- (7) Assumes the exercise in full of Liberty Media Series A common stock options to purchase 4,178,311 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (8) Includes 44,367 shares of Liberty Media Series A common stock held by the Liberty Media 401(k) Savings Plan for the benefit of Mr. Howard.

- (9) Includes 57,960 shares of Liberty Media Series A common stock held by a Grantor Retained Annuity Trust.
- (10) Includes 110,723 shares of Liberty Media Series A common stock owned directly by Mr. Howard's wife, Mrs. Leslie D. Howard, and 86,681 shares of Liberty Media Series A common stock owned by Mrs. Leslie D. Howard that are held by a Grantor Retained Annuity Trust, as to which Mr. Howard has disclaimed beneficial ownership.
- (11) Assumes the exercise in full of Liberty Satellite Series A common stock options to purchase 49,965 shares, all of which are exercisable on or within 60 days after September 30, 2003. Also includes 2,548 shares held by trusts of which Mr. Howard is beneficial owner as trustee for his children.
- (12) Assumes the exercise in full of On Command common stock options to purchase 110,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (13) Assumes the exercise in full of Liberty Satellite Series A common stock options to purchase 31,250 shares, all of which are exercisable on or within 60 days after September 30, 2003. Also includes 5,625 restricted shares issued in February 2001.
- (14) Assumes the exercise in full of On Command common stock options to purchase 50,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.

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- (15) All shares of Liberty Media Series A common stock are held in investment accounts managed by Mr. Wargo as to which he shares voting and investment power.
- (16) Assumes the exercise in full of On Command common stock options to purchase 20,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (17) Assumes the exercise in full of On Command common stock options to purchase 145,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (18) Assumes the exercise in full of On Command common stock options to purchase 50,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (19) Assumes the exercise in full of On Command common stock options to purchase 30,000 shares, all of which are exercisable on or within 60 days after September 30, 2003.
- (20) Includes 1,387 shares held by the Liberty Media 401(k) Savings Plan for the benefit of Ms. Strauss.
- (21) Assumes the exercise in full of Liberty Satellite Series A common stock options to purchase 13,625 shares, all of which are exercisable at September 30, 2003. Also includes 1,500 restricted shares issued in February 2001.

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**CERTAIN RELATED PARTY TRANSACTIONS**

The following is a description of certain material transactions between Liberty Media and On Command, or their respective affiliates. For information on additional material contacts and transactions between Liberty Media and On Command, or their respective affiliates, please see the sections entitled "The Companies Involved in the Merger - On Command" on page 22 and "The Merger" on page 27.

**Subordinated Loan**

On September 30, 2003, On Command received a \$40 million unsecured subordinated loan from Liberty Media, the proceeds of which were used to repay a portion of the outstanding principal amount of loans under On Command's Original Revolving Credit Facility.

The \$40 million loan made by Liberty Media is unsecured, bears interest at the rate of 10% per annum and matures on the later of December 31, 2008 and the date that is one year after the maturity date of the Amended and Restated Credit Agreement, as it may be amended, supplemented or otherwise modified from time to time. Pursuant to a subordination agreement between On Command and Liberty Media entered into on September 30, 2003, On Command's obligations with respect to the \$40 million loan are subordinated to its obligations to the lenders under the Amended and Restated Credit Agreement and no payments of principal or interest on such loan may be made until all obligations under the Amended and Restated Credit Agreement are indefeasibly paid in full.

**Issuance of Series A Preferred Stock and Common Stock Repurchase**

On August 8, 2000, On Command issued 13,500 shares of its Convertible Participating Preferred Stock, Series A, par value \$.01 per share, to Jerome H. Kern, the former Chairman and Chief Executive Officer of On Command and a director of Liberty Media, in exchange for a \$21,080,000 promissory note and a \$13,500 cash payment. The promissory note is secured by the Series A preferred stock or proceeds thereon and Mr. Kern's personal obligations under such promissory note are limited to 25% of the principal amount of the note plus accrued interest thereon. The note, which may not be prepaid, is due and payable on August 1, 2005, and interest on the note accrues at a rate of 7% per annum, compounded quarterly.

On May 1, 2001, pursuant to a Stock Purchase Agreement dated as of April 25, 2001, Ascent Entertainment Group, Inc., a subsidiary of Liberty Media, purchased 2,245,155 shares of On Command common stock from Mr. Kern and Mary Rossick Kern. The acquisition was consummated on May 1, 2001. Ascent Entertainment paid aggregate cash consideration for such shares in the amount of \$25.2 million, a portion of which was paid directly to the sellers and the balance of which was paid to The Bank of New York to retire certain indebtedness of Jerome H. Kern to The Bank of New York. In connection with such payment to the Bank of New York, Liberty Media was released from its obligations under its guarantee of Mr. Kern's indebtedness to The Bank of New York. The purchase price for such shares of On Command common stock was paid from Ascent Entertainment's available cash. Mr. Kern resigned as On Command's Chief Executive Officer on April 27, 2001 and as On Command's Chairman of the Board on June 1, 2001.

**Issuance of Series B, Series C and Series D Preferred Stock**

During 2001, On Command issued to Ascent Entertainment shares of Series B preferred stock, Series C preferred stock, and Series D preferred stock, par value \$.01 per share, in exchange for aggregate net cash proceeds of \$84,926,000. The Series B preferred stock, Series C preferred stock and Series D preferred stock are classified as mandatorily redeemable preferred stock due to the fact that, under certain circumstances and subject to certain restrictions, Ascent Entertainment could require On Command to redeem such mandatorily redeemable preferred stock. Accumulated and unpaid dividends on On Command's Series B preferred stock, Series C preferred stock and Series D preferred stock aggregated \$19,669,426 at September 30, 2003. Such dividends have been added to the liquidation preference of the applicable preferred stock issuance since On Command has not paid any cash dividends since issuance. On Command does not intend to pay cash dividends on any of its preferred stock issuances for the foreseeable future.



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Holders of Series B preferred stock, Series C preferred stock and Series D preferred stock are not entitled to vote on any matters submitted to a vote of the shareholders of On Command, except as described below and as required by law, and except that without the consent of at least 66 2/3% of the number of shares of each such series then outstanding, On Command may not take any action, including by merger, to amend any of the provisions of the respective certificates of designations or amend any of the provisions of the Restated Certificate of Incorporation of On Command so as to adversely affect any preferences or rights of such series of preferred stock. In addition to the rights set forth above, since December 31, 2002, in connection with any matter as to which the holders of On Command common stock are entitled to vote, each outstanding share of Series D preferred stock entitles the holder thereof to cast the number of votes equal to the number of votes such holder would have been entitled to cast had the shares of Series D preferred stock held by such holder been converted into shares of On Command common stock immediately prior to the record date for the determination of the stockholders entitled to vote upon such matter.

*Series B and Series C Preferred Stock.* Pursuant to preferred stock purchase agreements dated March 5, 2001 and April 23, 2001 between On Command and Ascent Entertainment, On Command sold 15,000 shares of its Series B preferred stock and 10,000 shares of its Series C preferred stock to Ascent Entertainment for cash consideration of \$15,000,000 and \$10,000,000, respectively.

The liquidation preference of each share of the Series B and Series C preferred stock as of any date of determination is equal to the sum of (a) the stated value per share of \$1,000, plus (b) an amount equal to all dividends accrued on such shares that have been added to and remain a part of the liquidation preference as of such date, plus (c) for purposes of the liquidation and redemption provisions of the Series B and Series C preferred stock, an amount equal to all unpaid dividends accrued on the sum of the amounts specified in clauses (a) and (b) above during the period from and including the immediately preceding dividend payment date to but excluding the date in question. At September 30, 2003, the aggregate liquidation preference of the Series B and Series C preferred stock was \$33,669,054.

The holders of Series B and Series C preferred stock are entitled to receive cumulative dividends, when and as declared by On Command, in preference to dividends on junior securities, including On Command's common stock and Series A preferred stock, and ratably with dividends on parity securities. Currently, dividends accrue on the Series B preferred stock and Series C preferred stock at the rate of 12% per annum of the liquidation preference of the applicable series of preferred stock. Accrued dividends on the Series B preferred stock are payable monthly, in cash. Accrued dividends on the Series C preferred stock are payable quarterly, in cash. Dividends not paid on any dividend payment date are added to the liquidation preference on such date and remain a part of the liquidation preference until such dividends are paid.

Upon any liquidation, dissolution or winding up of On Command, the holders of shares of Series B and C preferred stock are entitled to receive, from the assets of On Command available for distribution to stockholders, an amount in cash per share equal to the liquidation preference of a share of Series B and C preferred stock, after payment is made on any senior securities and before any distribution or payment is made on any junior securities, which payment will be made ratably among the holders of the Series B and Series C preferred stock and the holders of any parity securities.

Shares of Series B and Series C preferred stock are redeemable at the option of On Command at any time after the issuance date at a redemption price per share payable in cash equal to the liquidation preference of such share on the redemption date. Any redemptions by On Command are required to be made pro rata if less than all shares of Series B and C preferred stock are to be redeemed.

Subject to certain restrictions, including any such restrictions contained in On Command's credit facility, shares of Series B and Series C preferred stock are redeemable at the option of the holder at a price equal to the liquidation preference.

*Series D Preferred Stock.* On June 29, 2001, pursuant to a preferred stock purchase agreement between On Command and Ascent Entertainment, On Command authorized for issuance 60,000 shares of its Series D preferred stock, to Ascent Entertainment in consideration of \$60,000,000 in cash. The Series D preferred stock purchase agreement provided for the shares to be issued in three sub-series, Series D-1, Series D-2 and

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Series D-3, each with an aggregate authorized amount of \$20,000,000 in stated value. The Series D-1 shares were issued on June 29, 2001, the Series D-2 shares were issued on August 2, 2001 and the Series D-3 shares were issued on October 18, 2001. Commencing on December 31, 2002, each share of Series D preferred stock is convertible at the option of the holder into a number of shares of On Command common stock determined by dividing the liquidation preference of each share of Series D preferred stock by \$7.55, subject to anti-dilution adjustments.

The Series D liquidation preference of each share of Series D preferred stock as of any date of determination is equal to the sum of (a) the stated value per share of \$1,000, plus (b) an amount equal to all dividends accrued on such shares that have been added to and remain a part of the Series D liquidation preference as of such date, plus (c) for purposes of the liquidation and redemption provisions of the Series D preferred stock, an amount equal to all unpaid dividends accrued on the sum of the amounts specified in clauses (a) and (b) above during the period from and including the immediately preceding dividend payment date to but excluding the date in question. At September 30, 2003, the aggregate Series D liquidation preference was \$71,000,372.

The holders of the Series D preferred stock are entitled to receive cumulative dividends, when and as declared by On Command, in preference to dividends on junior securities, including On Command Common Stock and the Series A preferred stock and ratably with dividends on parity securities. Dividends accrue on each sub-series of the Series D preferred stock at the rate of 8% per annum of the Series D liquidation preference. Accrued dividends are payable in cash quarterly. Dividends not paid on any dividend payment date are added to the Series D liquidation preference until such dividends are paid.

Upon any liquidation, dissolution or winding up of On Command, the holders of shares of Series D preferred stock are entitled to receive, from the assets of On Command available for distribution to stockholders, an amount in cash per share equal to the Series D liquidation preference of a share of Series D preferred stock, after payment is made on any senior securities and before any distribution or payment is made on any junior securities, which payment will be made ratably among the holders of Series D preferred stock and the holders of any parity securities.

The Series D preferred stock is not redeemable, at the option of On Command, during the period from December 31, 2002 to June 30, 2005. Thereafter, the shares are redeemable, at the option of On Command, at the Series D liquidation preference plus the percentage set forth opposite the applicable redemption date as follows:

Redemption Date	Percentage
June 30, 2005 through June 29, 2006	4%
June 30, 2006 through June 29, 2007	3%
June 30, 2007 through June 29, 2008	2%
June 30, 2008 through June 29, 2009	1%
June 30, 2009 and thereafter	0%

In the event of certain events of bankruptcy described in the Certificate of Designations of the Series D preferred stock, and subject to certain restrictions, including any such restrictions contained in On Command's credit facility, shares of Series D preferred stock are redeemable at the option of the holder at a price equal to the Series D liquidation preference if such redemption occurs prior to June 30, 2005. If the redemption occurs after June 30, 2005, the shares are redeemable at the Series D liquidation preference plus the percentage set forth in the foregoing table.

**Allocation of Certain General and Administrative Expenses**

During the second quarter of 2001, three employees of another subsidiary of Liberty Media began performing duties for On Command. Accordingly, during 2001, portions of the salaries and related benefits of such employees and certain other administrative costs were allocated to On Command by the other Liberty

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Media subsidiary. Effective January 1, 2002, On Command began paying the compensation of such employees. The aggregate amount allocated to On Command during 2001 was \$408,000.

In addition, subsequent to Liberty Media's acquisition of Ascent Entertainment in March of 2000, Liberty Media and Ascent Entertainment have allocated certain general and administrative expenses (including portions of the salaries of certain employees) to On Command. Allocations from Liberty Media and Ascent Entertainment aggregated \$74,000, \$145,000, and \$100,000, respectively, during the six months ended June 30, 2003 and the year ended December 31, 2002 and 2001, respectively. On Command also reimburses Liberty Media and Ascent Entertainment for insurance and certain other expenses paid by Liberty Media and Ascent Entertainment on behalf of On Command. Amounts owed to Liberty Media pursuant to these allocations and reimbursements totaled \$578,000 at June 30, 2003 and are non-interest bearing. Although there are no written agreements with Liberty Media and Ascent Entertainment for these allocations and reimbursements, On Command believes the amounts to be reasonable.

## **Content Preparation and Distribution Services Agreement**

Since October 1, 2002, Ascent Media Group, Inc., a consolidated subsidiary of Liberty Media, has provided uplink and satellite transport services to On Command for a negotiated monthly fee. On March 24, 2003, On Command and Ascent Media executed a Content Preparation and Distribution Services Agreement that provides for uplink and satellite transport services for a monthly fee of \$36,000, subject to adjustment, for a period of five years, commencing on April 1, 2003. This agreement also provides for Ascent Media to supply On Command with content preparation services at a negotiated rate for a period of five years at On Command's request. Beginning in April 2003, Ascent Media began installing satellite equipment at On Command's downlink sites at hotels. During the six months ended June 30, 2003, Ascent Media charged On Command \$217,000 for such services. No content preparation services have been provided through June 30, 2003.

## **Affiliation Agreement**

Since July 2002, On Command has acquired certain programming content from a consolidated subsidiary of Liberty Media pursuant to an affiliation agreement that expires in September 2008. During the six months ended June 30, 2003, the amount charged to On Command pursuant to this agreement was \$50,000.

## **EXPERTS**

The consolidated balance sheets of Liberty Media and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002, have been incorporated by reference herein in reliance upon the report, dated March 17, 2003, of KPMG LLP, independent accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

As discussed in notes 3 and 7 to the consolidated financial statements, Liberty Media changed its method of accounting for intangible assets in 2002 and for derivative financial instruments in 2001.

The consolidated balance sheets of Telewest Communications plc and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2002, have been incorporated by reference herein in reliance upon the report, dated March 26, 2003, of KPMG Audit Plc, independent chartered accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The report of KPMG Audit plc dated March 26, 2003 contains an explanatory paragraph that states that Telewest Communications plc is undergoing financial restructuring which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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As discussed in note 3 to the consolidated financial statements, Telewest Communications plc changed its method of accounting for intangible assets in 2002 and derivative instruments in 2001.

The consolidated balance sheets of On Command and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002 have been incorporated by reference herein in reliance upon the report, dated February 12, 2003, except as to Note 6 to the consolidated financial statements which is as of March 28, 2003, of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The report of KPMG LLP dated February 12, 2003, except as to Note 6 to the consolidated financial statements, which is as of March 28, 2003, contains an explanatory paragraph that states that at December 31, 2002, the maximum leverage ratio permitted under On Command's debt facility was 4.25, and On Command's actual leverage ratio was 3.99. Because the maximum leverage ratio permitted at March 31, 2003 steps down to 3.50, On Command believes that it would not have been in compliance with such covenant at March 31, 2003 had it not reached agreement with its bank lenders to postpone, until June 29, 2003, the step down of the leverage ratio from 4.25 to 3.50. On Command is seeking to restructure the debt facility and such restructuring is contingent on certain events, which raises substantial doubt about On Command's ability to continue as a going concern. Management's plans in regard to this matter are also described in note 6 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**LEGAL MATTERS**

An opinion regarding the legality of the Liberty Media Series A common stock to be issued in the merger is being provided by Sherman & Howard L.L.C., counsel to Liberty Media. Certain Sherman & Howard L.L.C. attorneys own shares of Liberty Media common stock and stock of certain of Liberty Media's subsidiaries.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
Six Months Ended June 30, 2003 and 2002**

**General**

The following discussion and analysis provides information concerning the financial condition and results of operations of On Command Corporation (the Company) and should be read in conjunction with the accompanying condensed consolidated financial statements of the Company.

**Material Changes in Results of Operations**

***Revenue***

Revenue consists primarily of fees collected from hotels for in-room services provided to hotel guests by the Company. Services provided by the Company to hotel guests include pay-per-view movies, free-to-guest television programming, video games, Internet service, short subject products and digital music. The Company also earns revenue from the sale of video and music systems to third parties and the sale of video equipment to hotels. The Company's total net revenue was \$59,552,000 and \$60,999,000 during the three months ended June 30, 2003 and 2002, respectively, and \$116,272,000 and \$118,382,000 during the six months ended June 30, 2003 and 2002, respectively.

Net room revenue decreased \$1,159,000 or 1.0% during the six months ended June 30, 2003, as compared to the corresponding prior year period. The decrease in net room revenue during the 2003 six-month period is primarily attributable to a reduction in the volume of pay-per-view buys. The impact of such volume reduction is partially offset by (i) an increase in revenue attributable to higher average rates for certain pay-per-view products; (ii) a \$2,066,000 increase in the aggregate revenue derived from short subject, digital music and television-based Internet products; and (iii) a \$1,395,000 increase in free-to-guest programming revenue that is primarily the result of rate increases. The Company believes that the decrease in pay-per-view buys is attributable to the combined effect of (i) a decrease in buy rates for mature-themed pay-per-view products, (ii) a decrease in occupancy rates (as further discussed below), (iii) a change in occupancy mix, and (iv) a reduction in the average number of rooms served by the Company. The 4.1% decline in the average number of rooms served by the Company during the 2003 period is attributable to (i) the July 2002 sale of the Company's European operations; (ii) the loss of rooms to competitors; and (iii) the discontinuance of service to certain non-profitable hotels. Net room revenue decreased \$1,659,000 or 2.8% during the three months ended June 30, 2003, as compared to the corresponding prior year period. The decrease in net room revenue during the 2003 three-month period generally is attributable to the same factors that are described above with respect to the six-month period.

Overall hotel occupancy rates, as reported by Smith Travel Research, declined 1.5% during the six months ended June 30, 2003, as compared to the corresponding prior year period. In addition, occupancy rates for hotels in the top 25 markets, as reported by Smith Travel Research, declined 1.7% over the same period. Since the Company derives a significant portion of its revenue from hotels located in the top 25 markets, the Company believes that the occupancy rate for this segment is the best indicator of the impact changes in hotel occupancy are having on the Company's business. Hotel occupancy rates are outside of the Company's control, and changes in hotel occupancy rates can have a significant impact on the Company's results of operations.

During the six months ended June 30, 2003, hotels owned, managed or franchised by Marriott, Hilton Hotels Corporation (Hilton), InterContinental, Hyatt, and Starwood accounted for 33%, 14%, 11%, 7% and 7%, respectively, of the Company's total net room revenue. Accordingly, hotels owned, managed or franchised by the Company's five largest hotel chain customers accounted for 72% of the Company's total net room revenue during the six months ended June 30, 2003. The loss of any of these hotel chain customers, or the loss of a significant number of other hotel chain customers, could have a material adverse effect on the Company's results of operations and financial condition. For additional information concerning the Company's relation-

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ships with its significant customers, see note 8 to the accompanying condensed consolidated financial statements.

System and equipment sales and other revenue increased \$212,000 or 11.3% during the three months ended June 30, 2003 and decreased \$951,000 or 19.0% during the six months ended June 30, 2003, as compared to the corresponding prior year periods. The decrease during the six-month period is primarily attributable to the net effect of (i) a \$797,000 decrease in sales of the Company's music systems; and (ii) a \$439,000 decrease in sales of the Company's video systems and equipment. The decrease in music systems sales is largely attributable to the Company's efforts to convert its primary music system customer to a software-based music system from a hardware-based music system. The Company expects to initiate sales of its software-based music systems to this customer during the first quarter of 2004. As a result, the Company expects that it will not realize significant revenue from the sale of hardware-based music systems during 2003 and future periods, and that the revenue to be derived from the sale of its software-based music systems during 2003 will be significantly lower than the revenue derived from music system sales during 2002. The increase during the three-month period is primarily attributable to a \$196,000 increase in revenue from hotel pre-wire installations as individually insignificant increases in other revenue items offset a \$160,000 decrease in system and equipment sales.

**Direct Costs**

Direct costs consist primarily of fees paid to movie and other content providers, hotel commissions, direct costs associated with the Company's Internet product, and costs associated with video and music systems sold to other providers, and video equipment sold to hotels.

Content fees, commissions and other in-room service costs increased \$2,477,000 or 8.5% and \$1,979,000 or 3.5% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such increases are primarily attributable to (i) increases in royalties associated with the Company's mature-themed pay-per-view movies of \$808,000 and \$901,000 during the three and six month periods ended June 30, 2003, respectively; (ii) increases in duplication and distribution costs of \$333,000 and \$852,000 during the three and six months ended June 30, 2003, respectively; and (iii) other individually insignificant fluctuations in the components of this line item. A \$521,000 increase in hotel commissions and a \$515,000 benefit associated with the settlement of feature film royalty audits were also included in the three- and six-month fluctuations, respectively. The increases in mature-themed royalties are the result of an increase in the quality and quantity of mature-themed movies available through the Company's video systems due to the initiation of a new vendor relationship in March 2003 and increases in the capacity of certain of the Company's video systems. The increases in system duplication and distribution expense are due to an increase in the quantity of videocassettes duplicated and shipped and an increase in the frequency of title exchanges. Free-to-guest programming costs remained relatively constant during the 2003 and 2002 periods as higher rates from programmers were offset by cost savings resulting from the optimization of certain channel line-ups and changes in certain distribution agreements. In the aggregate, content fees, commissions and other in-room service costs represented 52.5% and 50.2% of total net room revenue during the six-month 2003 and 2002 periods, respectively. Certain of the Company's content fees and other in-room service costs do not vary with room revenue and occupancy rates.

The Company is a party to various agreements with programming suppliers that permit the Company to distribute movies and programming networks. The Company expects that the cost of such movies and programming networks will increase in future periods as contracts expire and renewals are negotiated. Certain of the Company's contracts with hotel customers limit the amount of any cost increases that can be passed on to any such hotels. Any cost increases that the Company is not able to pass on to its customers would result in increased pressure on the Company's operating margins.

System, equipment and other costs decreased \$128,000 or 10.2% and \$646,000 or 24.6% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such decreases primarily are attributable to lower costs as a result of the combined effect of lower music and video system sales and improved margins on video system sales.

**Table of Contents*****Operations Support***

Operations support expense includes the labor, materials and overhead costs associated with the repair, maintenance and support of video systems and other room service equipment. Operations support expense decreased \$1,453,000 or 20.4% and \$1,897,000 or 13.9% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such decreases are attributable primarily to (i) cost saving measures that resulted in lower occupancy costs, and in other individually insignificant expense reductions; and (ii) the impact of the July 2002 sale of the Company's European operations.

***Research and Development***

Research and development expense decreased \$161,000 or 14.9% and \$35,000 or 1.7% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such fluctuations are attributable to individually insignificant changes in the components of this line item.

***Selling, General and Administrative***

Selling, general and administrative expense increased \$829,000 or 15.3% and \$863,000 or 7.9% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such increases are attributable primarily to individually insignificant increases in various components of this line item, offset in part by reductions in the amounts accrued for employee bonuses. The percentage of total net revenue that is represented by selling, general and administrative expense was 10.2% and 9.3% during the six-month 2003 and 2002 periods, respectively.

***Depreciation and Amortization***

Depreciation and amortization expense decreased \$406,000 or 2.0% and \$1,574,000 or 3.9% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. Such decreases represent the net effect of reductions to the Company's depreciable asset base that were only partially offset by increases attributable to capital expenditures. The reductions in the Company's depreciable asset base are attributable to (i) assets becoming fully depreciated, and (ii) asset dispositions.

***Asset Impairment and Other Charges***

The Company recorded impairment and other charges of \$1,256,000 and \$7,650,000 during the six months ended June 30, 2003 and 2002, respectively. The 2002 amount includes a loss of \$5,103,000 related to the July 2002 sale of the Company's European operations, and a loss of \$1,411,000 relating to a transaction in which certain equipment was transferred to STSN, Inc. The 2003 charges and the remaining 2002 charges are comprised of amounts related to obsolete materials and equipment, and losses on various dispositions of property and equipment, and other assets.

***Interest Expense***

Interest expense decreased \$117,000 or 3.4% and \$370,000 or 5.3% during the three and six months ended June 30, 2003, respectively, as compared to the corresponding prior year periods. The decrease in interest expense is primarily attributable to the net effect of (i) decreases associated with lower weighted average interest rates; and (ii) increases associated with higher amortization of deferred financing costs as a result of fees paid in connection with the Amended and Restated Credit Agreement and amendments to the Revolving Credit Facility.

***Income Taxes***

The Company's income tax expense of \$131,000 and \$380,000 during the six months ended June 30, 2003 and 2002, respectively, represents taxes in certain foreign, state and local jurisdictions. The Company's reported income tax expense differs from the expected benefit that would result by applying the statutory rates to the Company's pre-tax losses primarily because the Company is only able to realize income tax benefits for



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financial reporting purposes to the extent that the Company generates taxable income, or to the extent that tax benefits (i) represent refunds due to the Company or (ii) offset recorded income tax liabilities. For financial reporting purposes, all of the Company's income tax liabilities had been fully offset by income tax benefits at June 30, 2003 and 2002, respectively.

***Net Loss***

As a result of the factors described above, the Company's net loss decreased from \$22,210,000 during the six months ended June 30, 2002 to \$16,400,000 during the six months ended June 30, 2003. The Company is attempting to improve its operating results by increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures. Specifically, the Company plans to increase revenue by (i) developing and, to the extent economically feasible, implementing new technologies that will enhance the Company's ability to manage its existing products and/or allow the Company to introduce new or more technologically advanced systems or products; (ii) retaining existing hotel customers and selectively increasing the number of rooms in the Company's traditional target market (generally hotels with 150 or more rooms); (iii) expanding the Company's target market by marketing the MiniMat<sup>®</sup> platform to smaller hotels (generally hotels with less than 150 rooms) and lower cost hotels and (iv) selectively increasing prices. In addition, the Company expects to continue to focus on all available opportunities to reduce or contain costs for the foreseeable future. In this regard, the Company believes vendor and customer relationships, outsourcing, and new technologies, are among the areas that will provide opportunities for cost reduction and containment during 2003 and future periods. The Company intends to contain and reduce capital expenditures by continuing its efforts to manage and deploy capital with a view towards improving the Company's return on its capital expenditures. The Company cannot presently predict the amount of increased revenue, decreased costs or other benefits that might result from its efforts to improve operating results. Furthermore, the Company's ability to accomplish its operating objectives is dependent to a degree on hotel occupancy rates and other factors outside of its control. No assurance can be given that the Company will be able to significantly increase its revenue base or reduce its expenses or capital expenditures. To the extent that changes in hotel occupancy rates impact the Company's revenue base, the Company will not experience proportionate changes in its expenses since many of the Company's expenses do not vary with hotel occupancy rates.

***Material Changes in Financial Condition***

During the six months ended June 30, 2003, the Company used \$19,834,000 of cash provided by operating activities, \$2,517,000 of cash provided by financing activities and a \$3,502,000 decrease in cash and cash equivalents to fund the \$25,904,000 used by its investing activities. For additional information, see the accompanying condensed consolidated statements of cash flows.

At June 30, 2003, the Company's Revolving Credit Facility, as amended, provided for aggregate borrowings of \$275,000,000. Borrowings under the Revolving Credit Facility are due and payable in July 2004. The Company had \$9,367,000 of remaining availability under the Revolving Credit Facility at June 30, 2003. The Company's ability to draw additional funds under the Revolving Credit Facility is subject to the Company's continued compliance with applicable financial covenants.

Revolving loans extended under the Revolving Credit Facility bear interest at LIBOR plus a spread that may range from 1.125% to 3.50% depending on certain operating ratios of the Company (4.83% effective borrowing rate at June 30, 2003). In addition, a facility fee ranging from 0.375% to 0.50% per annum is charged on the Revolving Credit Facility, depending on certain operating ratios of the Company. The Revolving Credit Facility contains customary covenants and limitations, most notably the inclusion of restrictions on the Company's ability to pay dividends or make other distributions. In addition, the Company is required to maintain leverage and interest coverage ratios. The Company was in compliance with such covenants at June 30, 2003, as then in effect. Substantially all of the Company's assets are pledged as collateral for borrowings under the Revolving Credit Facility.

On March 28, 2003, the Company and its bank lenders amended the Revolving Credit Facility to postpone until June 30, 2003 the step down of the leverage ratio covenant of its Revolving Credit Facility from

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4.25 to 3.50. On June 27, 2003, a similar amendment was executed to postpone such step down until October 1, 2003. Accordingly, the maximum leverage ratio permitted under the Revolving Credit Facility at June 30, 2003 was 4.25, and the Company's actual leverage ratio was 4.20 as of such date. The Company and its bank lenders executed an Amended and Restated Credit Agreement on April 17, 2003, and an amendment thereto on June 27, 2003. The effectiveness of the Amended and Restated Credit Agreement is contingent upon the contribution of \$40,000,000 by Liberty Media or one of its subsidiaries (the Liberty Group) to the Company to be used to repay principal due, and permanently reduce lender commitments, pursuant to the Amended and Restated Credit Agreement. However, the Liberty Group has no obligation to make any contribution to the Company, and there can be no assurance that any such contribution will be made or, if made, what the form or terms would be. After the proposed reduction of lender commitments, the Amended and Restated Credit Agreement would constitute a \$235,000,000 senior secured credit facility, consisting of a \$50,000,000 revolving credit facility and a \$185,000,000 term loan facility. The term loan would be subject to scheduled amortizations commencing September 30, 2003, and both facilities would mature on December 31, 2007. If it does not become effective earlier, and if it is not otherwise amended, the Amended and Restated Credit Agreement will terminate on September 30, 2003.

Although the Company is in compliance with the leverage ratio covenant of its existing Revolving Credit Facility at June 30, 2003, and the Company expects to be in compliance with such covenant at September 30, 2003, the Company believes that it will be out of compliance with such covenant after September 30, 2003 if the Amended and Restated Credit Agreement does not become effective by that date. If the Amended and Restated Credit Agreement has not become effective by, or is otherwise terminated prior to, October 1, 2003, the Company anticipates that it will request a further amendment to its existing Revolving Credit Facility to postpone the step down of the leverage ratio covenant. It is uncertain whether the Company's lenders would agree to such a further amendment and what terms might be imposed by the lenders in connection with such further amendment. In the event that the Amended and Restated Credit Agreement does not become effective by the date that the leverage ratio is reduced to 3.50, the Company anticipates that a default would occur under the Revolving Credit Facility. Upon the occurrence of a default, if left uncured, the bank lenders would have various remedies, including terminating their revolving loan commitment, declaring all outstanding loan amounts including interest immediately due and payable, and exercising their rights against their collateral, which consists of substantially all the Company's assets. No assurance can be given that the Amended and Restated Credit Agreement will become effective. In addition, if the Amended and Restated Credit Agreement does not become effective, no assurance can be given that the Company will be able to successfully restructure or refinance its existing Revolving Credit Facility on terms acceptable to the Company, or that the Company will be able to avoid a default under its existing Revolving Credit Facility. In light of the uncertainties with respect to the restructuring of the Revolving Credit Facility, the Company's independent auditors included an explanatory paragraph in their audit report on the December 31, 2002 consolidated financial statements of the Company stating in part that "The Company is seeking to restructure the debt facility and such restructuring is contingent on certain events, which raises substantial doubt about the Company's ability to continue as a going concern."

The Company has classified all borrowings outstanding under the Revolving Credit Facility as current liabilities in its June 30, 2003 condensed consolidated balance sheet due to the fact that an amendment was obtained from its lenders that allowed the Company to meet its leverage ratio covenant at June 30, 2003. In the absence of such amendment, the Company would not have been in compliance with the leverage ratio covenant under the Revolving Credit Facility at June 30, 2003. As the amendment postponed the step down of the leverage ratio covenant for a period of less than 12 months, the Company has classified the debt as current in accordance with *Emerging Issues Task Force Issue No. 86-30, Classification of Obligations When a Violation is Waived by a Creditor*, and *Statement of Financial Standards No. 6, Classification of Short-Term Obligations to Be Refinanced*. Although the Company has the intent to refinance the Revolving Credit Facility with long-term borrowings under the Amended and Restated Credit Agreement, the Company does not now have the unilateral ability to complete the conditions precedent to the effectiveness of the Amended and Restated Credit Agreement.

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During 2001, the Company issued to Ascent Entertainment Group, Inc. ( Ascent ) Series B Cumulative Redeemable Preferred Stock, par value \$.01 per share (the Series B Preferred Stock ), Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share (the Series C Preferred Stock ) and Series D Cumulative Convertible Redeemable Preferred Stock, par value \$.01 per share ( Series D Preferred Stock ) in exchange for aggregate net cash proceeds of \$84,942,000. The Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are classified as mandatorily redeemable preferred stock within the accompanying condensed consolidated balance sheet due to the fact that, under certain circumstances and subject to certain restrictions contained in the Revolving Credit Facility, Ascent could require the Company to redeem such mandatorily redeemable preferred stock. Ascent has informed the Company that it currently does not intend to redeem any portion of the liquidation value of the Series B Preferred Stock, Series C Preferred Stock, or Series D Preferred Stock. Accumulated and unpaid dividends on the Company's Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock aggregated \$17,512,000 at June 30, 2003. Such dividends have been added to the liquidation preference of the applicable preferred stock issuance since the Company has not paid any cash dividends since issuance. The Company does not intend to pay cash dividends on any of its preferred stock issuances for the foreseeable future.

In connection with a first quarter 2001 acquisition of a 7.5% interest in MagiNet and the settlement of certain litigation, the Company agreed that MagiNet would have the option during the 15 day period beginning on March 1, 2003 to cause the Company to repurchase all, but not less than all, of the 275,000 shares of Company Common Stock that had been issued to MagiNet in such transaction, at a price of \$15 per share. During the fourth quarter of 2002, the Company repurchased 119,500 of such shares for an aggregate price of \$1,344,000 or \$11.25 per share. In connection with this transaction, the parties agreed to postpone until March 1, 2004 the date on which the Company can be required to repurchase 119,500 of the remaining shares subject to repurchase. The Company is not precluded from repurchasing such shares at an earlier date. The repurchase price for such shares will be \$15 per share, plus an adjustment factor calculated from March 1, 2003 to the date of repurchase, at a rate of 8% per annum. On March 1, 2003, the date on which the remaining 36,000 shares will first become subject to repurchase by the Company was postponed until March 1, 2004. The repurchase price for such shares will remain at \$15 per share. Subsequent to June 30, 2003, MagiNet agreed to assign the above-described 36,000 shares to the Company in exchange for a \$540,000 credit against the cost of equipment to be purchased by MagiNet from the Company through March 1, 2004. To the extent that MagiNet has not used all of such credit by March 1, 2004, the remaining credit will be settled in cash.

Historically, the Company has required external financing to fund the cost of installing and upgrading video systems in hotels. However, during 2002 the Company was able to manage its operations and capital expenditures such that the Company was able to rely on internally generated funds and existing sources of liquidity to finance its installation and upgrade activities. During 2003 and future periods, the Company intends to continue to focus its efforts on increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures. The Company expects that it will be able to rely on cash provided by operations, existing availability under the Revolving Credit Facility, and existing cash and cash equivalent balances to fund its capital expenditures and other anticipated liquidity requirements during 2003. To the extent that the Company were to experience a revenue shortfall or any other unfavorable variance from its 2003 operating plan, the Company would seek to reduce expenses and/or capital expenditures to compensate for any such shortfall or unfavorable variance. Accordingly, the Company believes, although no assurance can be given, that it will not require additional sources of liquidity to fund its capital expenditures and anticipated liquidity requirements during 2003. Notwithstanding the foregoing, the Company anticipates that it will require a \$40,000,000 contribution from the Liberty Group in order to satisfy one of the conditions for the effectiveness of its Amended and Restated Credit Agreement, and that it would require additional external financing to (i) fund any significant new growth initiatives or unanticipated liquidity requirements; or (ii) refinance the Revolving Credit Facility, if the Amended and Restated Credit Agreement does not become effective on a timely basis (as discussed above). No assurance can be given that the Company will not be required to seek external financing during 2003, and if external financing is required, no assurance can be given that any such financing would be available on terms acceptable to the Company or at all.

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For recent developments regarding the Liberty Media \$40 million contribution, the Revolving Credit Facility and the Amended and Restated Credit Agreement, please see the section entitled "The Companies Involved in the Merger - On Command - Recent Developments" on page 23 of this proxy statement/prospectus.

***Quantitative and Qualitative Disclosures About Market Risk***

The Company is exposed to market risk from changes in interest rates, which could impact its results of operations and financial condition, particularly the Company's interest expense and cash flow. The Company does not hedge this exposure. Revolving loans extended under the Revolving Credit Facility generally bear interest at a variable rate based on LIBOR and certain operating ratios of the Company. At June 30, 2003, the outstanding borrowings under the Revolving Credit Facility were \$265,633,000. Exclusive of facility fees, the effective borrowing rate on amounts outstanding under the Revolving Credit Facility was 4.83% at June 30, 2003. Assuming no increase or decrease in the amount outstanding, a hypothetical 1% increase (or decrease) in interest rates at June 30, 2003 would increase (or decrease) the Company's annual interest expense and cash outflow by approximately \$2,656,000.

The Company's foreign operations are located primarily in Canada and Mexico. The Company believes the risks of foreign exchange rate fluctuations on its present operations are not material to the Company's overall financial condition. However, the Company will consider using foreign currency contracts, swap arrangements, or other financial instruments designed to limit exposure to foreign exchange rate fluctuations, if deemed prudent.

***Controls and Procedures***

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and principal accounting and financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of June 30, 2003 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal controls over financial reporting that occurred during the three months ended June 30, 2003 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
	(amounts in thousands) (unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 999	\$ 4,501
Accounts receivable, net	30,529	33,525
Other current assets	1,983	3,461
	<u>33,511</u>	<u>41,487</u>
Property and equipment:		
Video systems		
In service	668,036	668,697
Construction in progress	34,347	37,511
	<u>702,383</u>	<u>706,208</u>
Support equipment, vehicles and leasehold improvements	26,691	26,245
	<u>729,074</u>	<u>732,453</u>
Accumulated depreciation	(466,137)	(457,482)
	<u>262,937</u>	<u>274,971</u>
Goodwill	65,642	65,580
Other assets, net	15,289	14,444
	<u>\$ 377,379</u>	<u>\$ 396,482</u>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 20,862	\$ 28,689
Accounts payable to parent (note 7)	578	1,906
Accrued compensation	5,652	6,433
Sales, use and property tax liabilities	5,353	4,585
Other accrued liabilities	7,931	7,987
Current portion of debt (note 6)	266,295	833
	<u>306,671</u>	<u>50,433</u>
Total current liabilities	306,671	50,433
Long-term debt (note 6)	28	261,946
Other long-term liabilities		496
	<u>306,699</u>	<u>312,875</u>
Total liabilities	306,699	312,875
Minority interest in consolidated subsidiary		259
Redeemable securities:		

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Mandatorily redeemable preferred stock	102,454	97,848
Common stock subject to repurchase obligation (notes 3 and 9)	2,391	2,333
	<u>          </u>	<u>          </u>
Total redeemable securities	104,845	100,181
	<u>          </u>	<u>          </u>
Stockholders' deficit:		
Preferred stock, \$.01 par value; shares authorized 10,000,000; shares issued and outstanding 98,500 in 2003 and 2002		
Common stock, \$.01 par value; shares authorized 150,000,000; shares issued 30,977,840 in 2003 and 30,973,989 in 2002	310	310
Additional paid-in capital	295,663	299,398
Accumulated other comprehensive loss	(859)	(4,533)
Accumulated deficit	(302,177)	(285,777)
	<u>          </u>	<u>          </u>
	(7,063)	9,398
Common stock held in treasury, at cost (119,500 shares in 2003 and 2002)	(1,344)	(1,344)
Note receivable from stockholder (note 7)	(25,758)	(24,887)
	<u>          </u>	<u>          </u>
Total stockholders' deficit	(34,165)	(16,833)
	<u>          </u>	<u>          </u>
Commitments and contingencies (notes 6, 8 and 10)		
Total liabilities and stockholders' deficit	\$ 377,379	\$ 396,482
	<u>          </u>	<u>          </u>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(amounts in thousands, except per share amounts) (unaudited)				
<b>Net Revenue:</b>				
Net room revenue	\$ 57,471	\$ 59,130	\$ 112,225	\$ 113,384
System and equipment sales and other	2,081	1,869	4,047	4,998
	<u>59,552</u>	<u>60,999</u>	<u>116,272</u>	<u>118,382</u>
<b>Direct costs of net revenue:</b>				
Content fees, commissions and other in-room services (note 7)	31,566	29,089	58,952	56,973
System, equipment and other costs	1,123	1,251	1,985	2,631
	<u>32,689</u>	<u>30,340</u>	<u>60,937</u>	<u>59,604</u>
Total costs of net revenue				
	<u>32,689</u>	<u>30,340</u>	<u>60,937</u>	<u>59,604</u>
Direct margin (exclusive of other operating expenses shown separately below)	26,863	30,659	55,335	58,778
	<u>26,863</u>	<u>30,659</u>	<u>55,335</u>	<u>58,778</u>
<b>Other operating expenses:</b>				
Operations support	5,682	7,135	11,744	13,641
Research and development	917	1,078	2,000	2,035
Selling, general and administrative (note 7)	6,256	5,427	11,832	10,969
Depreciation and amortization	19,464	19,870	38,427	40,001
Asset impairments and other charges	931	5,821	1,256	7,650
	<u>33,250</u>	<u>39,331</u>	<u>65,259</u>	<u>74,296</u>
Total other operating expenses	33,250	39,331	65,259	74,296
Loss from operations	(6,387)	(8,672)	(9,924)	(15,518)
Interest expense	(3,311)	(3,428)	(6,664)	(7,034)
Other income, net	149	240	319	722
	<u>(9,549)</u>	<u>(11,860)</u>	<u>(16,269)</u>	<u>(21,830)</u>
Loss before income taxes	(9,549)	(11,860)	(16,269)	(21,830)
Income tax expense	(43)	(337)	(131)	(380)
	<u>(9,592)</u>	<u>(12,197)</u>	<u>(16,400)</u>	<u>(22,210)</u>
Net loss	(9,592)	(12,197)	(16,400)	(22,210)
Dividends on mandatorily redeemable preferred stock	(2,344)	(2,130)	(4,606)	(4,184)
	<u>(11,936)</u>	<u>(14,327)</u>	<u>(21,006)</u>	<u>(26,394)</u>
Net loss attributable to common stockholders	\$ (11,936)	\$ (14,327)	\$ (21,006)	\$ (26,394)
	<u>(11,936)</u>	<u>(14,327)</u>	<u>(21,006)</u>	<u>(26,394)</u>
Basic and diluted net loss per common share (note 4)	\$ (.39)	\$ (.46)	\$ (.68)	\$ (.85)
	<u>(.39)</u>	<u>(.46)</u>	<u>(.68)</u>	<u>(.85)</u>
	30,858	30,906	30,858	30,899

Basic and diluted weighted average number of  
common shares outstanding

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See accompanying notes to condensed consolidated financial statements.

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**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2003</b>	<b>2002</b>	<b>June 30, 2003</b>	<b>2002</b>
	<b>(amounts in thousands)</b>			
	<b>(unaudited)</b>			
Net loss	\$ (9,592)	\$ (12,197)	\$ (16,400)	\$ (22,210)
Foreign currency translation adjustment, net of tax	1,619	1,446	3,674	1,375
Comprehensive loss	\$ (7,973)	\$ (10,751)	\$ (12,726)	\$ (20,835)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT****Six Months Ended June 30, 2003**

	<b>Preferred stock</b>	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Accumulated other comprehensive loss</b>	<b>Accumulated deficit</b>	<b>Treasury stock</b>	<b>Note receivable from stockholder</b>	<b>Total stockholders deficit</b>
(amounts in thousands) (unaudited)								
Balance at December 31, 2002	\$	\$ 310	\$ 299,398	\$ (4,533)	\$ (285,777)	\$ (1,344)	\$ (24,887)	\$ (16,833)
Net loss					(16,400)			(16,400)
Other comprehensive income				3,674				3,674
Interest on stockholder note (note 7)			871				(871)	
Dividends on mandatorily redeemable preferred stock			(4,606)					(4,606)
Balance at June 30, 2003	\$	\$ 310	\$ 295,663	\$ (859)	\$ (302,177)	\$ (1,344)	\$ (25,758)	\$ (34,165)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(amounts in thousands) (note 5) (unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$(16,400)	\$(22,210)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,427	40,001
Payments of restructuring costs	(912)	(769)
Asset impairments and other charges	1,256	7,650
Other non-cash items	977	738
Changes in assets and liabilities:		
Accounts receivable	3,283	(3,013)
Other assets	1,810	507
Accounts payable	(8,763)	2,559
Accrued liabilities	156	3,641
Net cash provided by operating activities	<u>19,834</u>	<u>29,104</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(25,604)	(26,018)
Acquisition of minority interest	(300)	
Cost investments		(2,599)
Net cash used in investing activities	<u>(25,904)</u>	<u>(28,617)</u>
<b>Cash flows from financing activities:</b>		
Borrowings of debt	4,000	7,000
Repayments of debt	(456)	(5,406)
Payment of deferred financing costs	(1,027)	
Proceeds from issuance of common and preferred stock		59
Net cash provided by financing activities	<u>2,517</u>	<u>1,653</u>
Effect of exchange rate changes on cash	51	46
Net increase (decrease) in cash and cash equivalents	(3,502)	2,186
Cash and cash equivalents, beginning of period	4,501	2,869
Cash and cash equivalents, end of period	<u>\$ 999</u>	<u>\$ 5,055</u>

See accompanying notes to condensed consolidated financial statements.



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**ON COMMAND CORPORATION**

**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2003**

**(unaudited)**

**(1) Basis Of Presentation**

On Command Corporation is a Delaware corporation formed in July 1996 by Ascent Entertainment Group, Inc. ( Ascent ). Ascent is the controlling stockholder of On Command Corporation (together with its consolidated subsidiaries, On Command or the Company ). On March 28, 2000, Liberty Media Corporation ( Liberty ) closed a cash tender offer for the common stock of Ascent and thereby obtained control of the Company. On June 8, 2000, Liberty completed a merger with Ascent pursuant to which Ascent became an indirect, wholly-owned subsidiary of Liberty. The portion of Liberty's cost to acquire Ascent that is attributable to the Company has not been reflected in the accompanying condensed consolidated financial statements of the Company due to the fact that a significant percentage of the Company's common stock ( Company Common Stock ) is owned by stockholders other than Liberty. In April 2002, Liberty Satellite & Technology, Inc., ( LSAT ), a majority-owned subsidiary of Liberty, acquired 100% of the common equity of Ascent. At June 30, 2003, LSAT, through its ownership interest in Ascent, owned approximately 74% of the outstanding Company Common Stock and 100% of certain series of the Company's preferred stock, which ownership interests collectively represented approximately 80% of the voting power associated with On Command's common and preferred securities.

The Company develops, assembles and operates proprietary video systems. The Company's primary distribution system allows hotel guests to select, on an on-demand basis, motion pictures on computer-controlled television sets located in their hotel rooms. The Company also provides in-room viewing of select cable channels and other interactive services under long-term contracts to hotels. These interactive services include video games, Internet offerings, digital music and various hotel and guest services. At June 30, 2003, the Company's primary operating subsidiaries or branches were located in the United States, Canada and Mexico.

These interim condensed consolidated financial statements are unaudited. In the opinion of management, all adjustments (consisting only of normal recurring accruals) have been made which are necessary to present fairly the financial position of the Company as of June 30, 2003, as well as the results of its operations for the three and six months ended June 30, 2003 and 2002. The results of operations for any interim period are not necessarily indicative of the results for the entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's December 31, 2002 Annual Report on Form 10-K.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, as well as the reported amounts of revenue and expenses. Significant estimates are involved in determining the allowance for doubtful accounts receivable, asset impairments, the estimated useful lives of property and equipment and intangible assets, and the amounts of certain accrued liabilities. Actual results may vary significantly from these estimates.

Certain prior period amounts have been reclassified for comparability with the 2003 presentation.

**(2) Liberty Transaction**

On April 2, 2003, the Company announced that it had received an expression of interest from Liberty regarding the possibility of Liberty acquiring all the issued and outstanding shares of the Company that Liberty (through its subsidiaries) does not already own. As proposed by Liberty, the Company's stockholders would receive 0.0787 of a share of Liberty Media Corporation Series A common stock for

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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

each share of On Command common stock held. The transaction would be taxable to the Company's stockholders.

On Command's Board of Directors has established a committee of independent directors to consider the proposal from Liberty. The committee has engaged independent legal counsel and financial advisors and has authority, among other things, to review and evaluate the terms and conditions of the proposed transaction, to determine whether the proposed transaction is in the best interests of the Company and its public stockholders, to negotiate with Liberty, and to accept, reject, or modify the proposed transaction. Any transaction between the Company and Liberty would be subject to negotiation, execution and delivery of definitive documentation relating thereto and any closing conditions provided for in such documentation.

**(3) Recent Accounting Pronouncements**

In May 2003, the Financial Accounting Standards Board issued *Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (Statement No. 150). Statement No. 150 provides guidance as to whether certain financial instruments are required to be classified as liabilities, subject to its recognition and measurement provisions. Generally, Statement No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of Statement No. 150 on July 1, 2003. As a result of adopting Statement No. 150 for existing financial instruments entered into on or before May 31, 2003, liabilities increased by approximately \$2.4 million, and redeemable securities decreased by approximately \$2.4 million, as of July 1, 2003.

**(4) Earnings (Loss) Per Common Share**

The loss per common share is based on 30,858,000 and 30,906,000 weighted average shares outstanding during the three months ended June 30, 2003 and 2002, respectively, and 30,858,000 and 30,899,000 weighted average shares outstanding during the six months ended June 30, 2003 and 2002, respectively. Potential common shares were not included in the computation of diluted earnings per share because their inclusion would be anti-dilutive. At June 30, 2003 and 2002, the number of potential dilutive common shares was approximately 21,050,000 and 20,196,000, respectively. Such potential common shares consist of stock options to acquire shares of Company Common Stock, warrants and convertible securities. The foregoing potential common share amount does not take into account the assumed number of shares that may be repurchased by the Company upon the exercise of stock options.

**(5) Supplemental Disclosures to Consolidated Statements of Cash Flows**

Cash paid for interest was \$5,956,000 and \$5,968,000 during the six months ended June 30, 2003 and 2002, respectively. Cash paid for income taxes was not significant during these periods.

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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(6) Debt**

Debt is summarized as follows (amounts in thousands):

	June 30, 2003	December 31, 2002
Revolving Credit Facility(a)	\$ 265,633	\$ 261,633
Capital lease obligations	690	1,146
	<u>266,323</u>	<u>262,779</u>
Less current portion	(266,295)	(833)
	<u>\$ 28</u>	<u>\$ 261,946</u>

- (a) The Company's revolving credit facility, as amended, (the Revolving Credit Facility) provided for aggregate borrowings of \$275,000,000 at June 30, 2003. Borrowings under the Revolving Credit Facility are due and payable in July 2004. The Company had \$9,367,000 of remaining availability under the Revolving Credit Facility at June 30, 2003. The Company's ability to draw additional funds under the Revolving Credit Facility is subject to the Company's continued compliance with applicable financial covenants.

Revolving loans extended under the Revolving Credit Facility bear interest at the London Interbank Offered Rate (LIBOR) plus a spread that may range from 1.125% to 3.50% depending on certain operating ratios of the Company (4.83% effective borrowing rate at June 30, 2003). In addition, a facility fee ranging from 0.375% to 0.50% per annum is charged on the Revolving Credit Facility, depending on certain operating ratios of the Company. The Revolving Credit Facility contains customary covenants and agreements, most notably the inclusion of restrictions on the Company's ability to pay dividends or make other distributions. In addition, the Company is required to maintain leverage and interest coverage ratios. The Company was in compliance with such covenants at June 30, 2003, as then in effect. Substantially all of the Company's assets are pledged as collateral for borrowings under the Revolving Credit Facility.

On March 28, 2003, the Company and its bank lenders amended the Revolving Credit Facility to postpone until June 30, 2003 the step down of the leverage ratio covenant of its Revolving Credit Facility from 4.25 to 3.50. On June 27, 2003, a similar amendment was executed to postpone such step down until October 1, 2003. Accordingly, the maximum leverage ratio permitted under the Revolving Credit Facility at June 30, 2003 was 4.25, and the Company's actual leverage ratio was 4.20 as of such date. The Company and its bank lenders executed an Amended and Restated Credit Agreement on April 17, 2003, and an amendment thereto on June 27, 2003 (as amended, the Amended and Restated Credit Agreement). The effectiveness of the Amended and Restated Credit Agreement is contingent upon the contribution of \$40,000,000 by Liberty or one of its subsidiaries (collectively, the Liberty Group) to the Company to be used to repay principal due, and permanently reduce lender commitments, pursuant to the Amended and Restated Credit Agreement. However, the Liberty Group has no obligation to make any contribution to the Company, and there can be no assurance that any such contribution will be made or, if made, what the form or terms would be. After the proposed reduction of lender commitments, the Amended and Restated Credit Agreement would constitute a \$235,000,000 senior secured credit facility, consisting of a \$50,000,000 revolving credit facility and a \$185,000,000 term loan facility. The term loan would be subject to scheduled amortizations commencing September 30, 2003, and both facilities would mature on December 31, 2007. If it does not earlier become effective, and if it is not otherwise amended, the Amended and Restated Credit Agreement will terminate on September 30, 2003.

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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Although the Company is in compliance with the leverage ratio covenant of its existing Revolving Credit Facility at June 30, 2003, and the Company expects to be in compliance with such covenant at September 30, 2003, the Company believes that it will be out of compliance with such covenant after September 30, 2003 if the Amended and Restated Credit Agreement does not become effective by that date. If the Amended and Restated Credit Agreement has not become effective by, or is otherwise terminated prior to, October 1, 2003, the Company anticipates that it will request a further amendment to its existing Revolving Credit Facility to postpone the step down of the leverage ratio covenant. It is uncertain whether the Company's lenders would agree to such a further amendment and what terms might be imposed by the lenders in connection with such further amendment. In the event that the Amended and Restated Credit Agreement does not become effective by the date that the leverage ratio is reduced to 3.50, the Company anticipates that a default would occur under the Revolving Credit Facility. Upon the occurrence of a default, if left uncured, the bank lenders would have various remedies, including terminating their revolving loan commitment, declaring all outstanding loan amounts including interest immediately due and payable, and exercising their rights against their collateral, which consists of substantially all the Company's assets. No assurance can be given that the Amended and Restated Credit Agreement will become effective. In addition, if the Amended and Restated Credit Agreement does not become effective, no assurance can be given that the Company will be able to successfully restructure or refinance its existing Revolving Credit Facility on terms acceptable to the Company, or that the Company will be able to avoid a default under its existing Revolving Credit Facility. In light of the uncertainties with respect to the restructuring of the Revolving Credit Facility, the Company's independent auditors included an explanatory paragraph in their audit report on the December 31, 2002 consolidated financial statements of the Company stating in part that

The Company is seeking to restructure the debt facility and such restructuring is contingent on certain events, which raises substantial doubt about the Company's ability to continue as a going concern.

The Company has classified all borrowings outstanding under the Revolving Credit Facility as current liabilities in its June 30, 2003 condensed consolidated balance sheet due to the fact that an amendment was obtained from its lenders that allowed the Company to meet its leverage ratio covenant at June 30, 2003. In the absence of such amendment, the Company would not have been in compliance with the leverage ratio covenant under the Revolving Credit Facility at June 30, 2003. As the amendment postponed the step down of the leverage ratio covenant for a period of less than 12 months, the Company has classified the debt as current in accordance with *Emerging Issues Task Force Issue No. 86-30, Classification of Obligations When a Violation is Waived by a Creditor*, and *Statement of Financial Standards No. 6, Classification of Short-Term Obligations to Be Refinanced*. Although the Company has the intent to refinance the Revolving Credit Facility with long-term borrowings under the Amended and Restated Credit Agreement, the Company does not now have the unilateral ability to complete the conditions precedent to the effectiveness of the Amended and Restated Credit Agreement.

**(7) Related Party Transactions**

Liberty allocates certain general and administrative expenses to the Company. Although there are no written agreements with Liberty for these allocations, the Company believes the amounts to be reasonable. Allocations from Liberty totaled \$74,000 for each of the six month periods ended June 30, 2003 and 2002, and such amounts are included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations. In addition, the Company reimburses Liberty for certain expenses, including various insurance premiums, paid by Liberty on behalf of the Company. Amounts owed to Liberty pursuant to these arrangements (\$578,000 at June 30, 2003) are non-interest bearing.



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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Since October 1, 2002, Ascent Media Group, Inc., a consolidated subsidiary of Liberty ( Ascent Media ) has provided uplink and satellite transport services to the Company for a negotiated monthly fee. Beginning in April 2003, Ascent also began installing satellite equipment at On Command s downlink sites at hotels. During the six months ended June 30, 2003, Ascent Media charged the Company \$217,000 for such services. The terms for the above-described services are set forth in a Content Preparation and Distribution Services Agreement that covers the five-year period beginning on April 1, 2003. Ascent Media also may supply the Company with content preparation services at a negotiated rate during the term of the agreement. No content preparation services have been provided through June 30, 2003.

Since July 2002, the Company has acquired certain programming content from a consolidated subsidiary of Liberty pursuant to an affiliation agreement that expires in September 2008. During the six months ended June 30, 2003, the amount charged to the Company pursuant to this agreement was \$50,000.

On August 8, 2000, the Company issued 13,500 shares of the Company s Series A, \$.01 Par Value Convertible Participating Preferred Stock ( Series A Preferred Stock ), to the former Chairman and Chief Executive Officer of the Company in exchange for a \$21,080,000 promissory note and a \$13,500 cash payment. The promissory note is secured by the Series A Preferred Stock or proceeds thereon and the former Chairman and Chief Executive Officer s personal obligations under such promissory note are limited to 25% of the principal amount of the note plus accrued interest thereon. The note, which may not be prepaid, is due and payable on August 1, 2005, and interest on the note accrues at a rate of 7% per annum, compounded quarterly.

**(8) Significant Customers**

During the six months ended June 30, 2003, hotels owned, managed or franchised by Marriott International, Inc. ( Marriott ), Hilton Hotels Corporation ( Hilton ), InterContinental Hotel Group (formerly Six Continents Hotels, Inc.) ( InterContinental ), Hyatt Hotel Corporation ( Hyatt ), and Starwood Hotels and Resorts Worldwide, Inc. ( Starwood ) accounted for 33%, 14%, 11%, 7% and 7%, respectively, of the Company s total net room revenue. Accordingly, hotels owned, managed or franchised by the Company s five largest hotel chain customers accounted for 72% of the Company s total net room revenue during the six months ended June 30, 2003. The loss of any of these hotel chain customers, or the loss of a significant number of other hotel chain customers, could have a material adverse effect on the Company s results of operations and financial condition.

On March 21, 2001, the Company and Marriott entered into a master agreement pursuant to which the Company distributes its services in hotel rooms owned or managed by Marriott. In addition, the Company has the opportunity to enter into agreements to provide its services to additional hotel rooms franchised by Marriott. The master agreement with Marriott expires in 2008. At June 30, 2003, On Command provided entertainment services to approximately 166,000 rooms that were owned or managed by Marriott, and approximately 89,000 rooms that were franchised by Marriott.

On Command s master contract with Hilton expired in April 2000, and in October 2000, Hilton announced that it would not be renewing such master contract. As a result, domestic hotels owned, managed or franchised by Hilton are currently subject to a master contract between Hilton and a competitor of the Company. Accordingly, the Company anticipates that domestic hotels owned by Hilton will not renew their contracts with the Company as they expire. However, domestic hotels that are managed or franchised by Hilton are not precluded from renewing their contracts with the Company, and, although no assurance can be given, the Company anticipates that certain of those domestic hotels will choose to renew with the Company. At June 30, 2003, the Company provided service to approximately 117,000 rooms in 506 domestic hotels that are owned, managed or franchised by Hilton. The majority of

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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

these rooms are located in managed or franchised hotels that are not owned by Hilton. Through June 30, 2003, the Company's contracts with 65 of the aforementioned 506 hotels (16,000 rooms) had expired and service to these hotels is currently provided under monthly or other short-term renewals. The Company's individual contracts with the remaining 441 domestic Hilton hotels (101,000 rooms) expire at various dates through 2010, with 46% of those rooms expiring by 2005. Since January 2002, the Company has entered into new contracts, or renewed existing contracts, with respect to 9,300 domestic rooms that were franchised by Hilton, and 2,600 domestic rooms that were managed by Hilton. The net room revenue derived from domestic hotels that were owned, managed, or franchised by Hilton decreased approximately 18% during the six months ended June 30, 2003, as compared to the corresponding prior year period. Over time, the Company anticipates that the revenue it derives from hotels that are owned, managed or franchised by Hilton will continue to decrease. However, due to the uncertainties involved, the Company is currently unable to predict the amount and timing of the revenue decreases.

The Company does not have master contracts with either Starwood or InterContinental, and the Company's master contract with Hyatt provides for the simultaneous expiration of the Company's contractual relationships with all of the individual hotels that are subject to the Hyatt master contract as of December 31, 2004. At June 30, 2003, the Company provided entertainment services to approximately 60,000 rooms in hotels that are owned, managed or franchised by Hyatt, and approximately 176,000 rooms in hotels that are owned, managed or franchised by Starwood or InterContinental. Agreements with respect to approximately 45% of such Starwood and InterContinental rooms have already expired, or will expire by December 31, 2004. At June 30, 2003, approximately 37,000 or 59% of the Company's Starwood rooms were located in Sheraton or Four Points hotels that, depending on whether such hotels are owned, managed or franchised by Starwood, may be covered by a master contract with a competitor of the Company upon the expiration of such hotels' contracts with the Company. The Company is actively pursuing master agreements with InterContinental, with Starwood with respect to the Starwood brands that are not already covered by a competitor's contract, and with Hyatt for the period after December 31, 2004.

In certain cases, the Company is also pursuing direct contractual relationships with individual hotels that are owned, managed or franchised by these hotel chains. No assurance can be given that the Company will be successful in executing master or individual hotel contracts. However, the Company expects that, regardless of the expiration dates of master contracts or individual contracts with hotels, the Company will continue to be the provider of in-room entertainment services for individual hotels that are not under contract until such time as a competitor's equipment can be installed.

**(9) Commitments and Contingencies**

In connection with a first quarter 2001 acquisition of a 7.5% interest in MagiNet Corporation, formerly e-ROOM CORPORATION (MagiNet), and the settlement of certain litigation, the Company agreed that MagiNet would have the option during the 15 day period beginning on March 1, 2003 to cause the Company to repurchase all, but not less than all, of the 275,000 shares of Company Common Stock issued to MagiNet at a price of \$15 per share. During the fourth quarter of 2002, the Company repurchased 119,500 of such shares for an aggregate price of \$1,344,000 or \$11.25 per share. In connection with this transaction, the parties agreed to postpone until March 1, 2004 the date on which the Company can be required to repurchase 119,500 of the remaining shares subject to repurchase. The Company is not precluded from repurchasing such shares at an earlier date. The repurchase price for such shares will be \$15 per share, plus an adjustment factor calculated from March 1, 2003 to the date of repurchase, at a rate of 8% per annum. On March 1, 2003, the date on which the remaining 36,000 shares will first become subject to repurchase by the Company was postponed until March 1, 2004. The repurchase price for such shares will remain at \$15 per share. Subsequent to June 30, 2003, MagiNet

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**ON COMMAND CORPORATION  
(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

agreed to assign the above-described 36,000 shares to the Company in exchange for a \$540,000 credit against the cost of equipment to be purchased by MagiNet from the Company through March 1, 2004. To the extent that MagiNet has not used all of such credit by March 1, 2004, the remaining credit will be settled in cash.

On February 28, 2001, the Company acquired a controlling interest in Hotel Digital Network, Inc. ( Hotel Digital Network ). In connection with such acquisition, the Company entered into a stockholders agreement (the HDN Stockholders Agreement ) with the then controlling stockholder of Hotel Digital Network (the HDN Stockholder ). The HDN Stockholders Agreement provided the HDN Stockholder with the right during each of the 30-day periods beginning on March 1, 2003 and 2004 to require the Company to exchange shares of Company Common Stock for all, but not less than all, of the Hotel Digital Network common shares held by the HDN Stockholder. On March 20, 2003, the HDN Stockholder exercised such right, and in May 2003, the Company acquired all of the HDN Stockholder s interests in Hotel Digital Network common stock for cash and certain other consideration, which in the aggregate was not material to the Company s financial condition. Such acquisition, which did not require the issuance of any shares of Company Common Stock, represented the final settlement of the Company s purchase obligation under the HDN Stockholders Agreement.

The Company is a party to affiliation agreements with programming suppliers. Pursuant to certain of these agreements, the Company is committed to distribute such suppliers programming on its video systems. Additionally, certain of these agreements provide for minimum payments and per room rates that escalate as the number of rooms receiving programming decreases.

In certain cases, the Company has entered into master contracts whereby the Company has agreed to purchase televisions and/or provide capital assistance and, to a lesser extent, provide television maintenance services to hotels during the respective terms of the applicable contracts.

The Company has received a series of letters from Acacia Media Technologies Corporation ( Acacia ) regarding a portfolio of patents owned by Acacia. Acacia has alleged that its patents cover certain activities performed by the Company and has proposed that the Company take a license under those patents. The Company has reviewed Acacia s patents and believes there are substantial arguments that Acacia s claims lack merit.

The Company has contingent liabilities related to legal proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible the Company may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

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**ON COMMAND CORPORATION**  
**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(10) Stock Compensation**

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ( APB Opinion No. 25 ) and related interpretations, to account for its fixed plan stock options. Under this method, compensation expense for stock options or awards that are fixed generally is required to be recognized over the vesting period only if the current market price of the underlying stock exceeds the exercise price on the date of grant. Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, ( Statement No. 123 ) established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by Statement No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, and has adopted the disclosure requirements of Statement No. 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of FASB Statement No. 123*. The following table illustrates the effects on net loss and loss per share if the Company had applied the fair value recognition provisions of Statement No. 123 to stock-based employee compensation (amounts in thousands except per share amounts).

	<b>Six Months Ended June 30,</b>	
	<b>2003</b>	<b>2002</b>
Net loss, as reported:	\$(16,400)	\$(22,210)
Stock compensation expense determined under fair value method, net of taxes	(3,120)	(2,692)
	\$ (19,520)	\$ (24,902)
Pro forma net loss	\$ (19,520)	\$ (24,902)
	\$ (24,126)	\$ (29,086)
Pro forma net loss applicable to common stockholders	\$ (24,126)	\$ (29,086)
Loss per share:		
Basic and diluted as reported	\$ (0.68)	\$ (0.85)
	\$ (0.78)	\$ (0.94)
Basic and diluted pro forma	\$ (0.78)	\$ (0.94)
	\$ (0.78)	\$ (0.94)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
Years ended December 31, 2002, 2001 and 2000**

**Critical Accounting Policies**

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Listed below are the accounting policies that the Company believes are critical to its financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting policies, estimates and assumptions, as well as the resulting impact to the Company's financial statements, have been discussed with the Company's audit committee.

*Carrying Value of Long-lived Assets.* In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, the Company periodically reviews the carrying amounts of property and equipment to determine whether current events and circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such asset exceeds its estimated fair value. The Company generally measures estimated fair value by considering quoted market prices, sales prices for similar assets, or by discounting estimated future cash flows. Considerable management judgment is necessary to estimate the undiscounted cash flows and fair values of assets, accordingly, actual results could vary significantly from such estimates. At December 31, 2002, the Company concluded that its long-lived assets were not impaired based on an analysis of estimated undiscounted cash flows. A significant decline in the estimated undiscounted cash flows of the Company's long-lived assets could cause the Company to recognize an impairment charge.

*Carrying Value of Goodwill.* In accordance with Statement of Financial Accounting Standards No. 142, *Accounting for Goodwill and Other Intangible Assets*, ( Statement No. 142 ) the Company evaluates, on at least an annual basis, the carrying amount of goodwill to determine whether current events and circumstances indicate that such carrying amount may not be recoverable. To accomplish this, the Company compares the fair value of its reporting units to their carrying amounts. If the carrying value of a reporting unit were to exceed its fair value, the Company would perform the second step of the impairment test. In the second step, the Company would compare the implied fair value of the reporting unit's goodwill to its carrying amount and any excess would be charged to operations. Considerable management judgment is necessary to estimate the fair values of assets and liabilities. Accordingly, actual results could vary significantly from such estimates. At December 31, 2002, the Company concluded that its goodwill was not impaired based on an assessment of estimated fair values. The fair values used in such assessment were based on the market price of Company Common Stock.

**Material Changes in Results of Operations**

***2002 vs. 2001***

***Revenue***

Revenue consists primarily of fees collected from hotels for in-room services provided to hotel guests by the Company. Services provided by the Company to hotel guests include pay-per-view movies, free-to-guest television programming, video games, Internet service, short subject products and digital music. The Company also earns revenue from the sale of video and music systems to third parties and the sale of video equipment to hotels. The Company's total net revenue during 2002 and 2001 was \$238,397,000 and \$239,409,000, respectively.

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Net room revenue decreased \$1,616,000 or 0.7% during 2002, as compared to 2001. The decrease in net room revenue during 2002 is attributable to the net effect of (i) a decrease attributable to a lower volume of pay-per-view buys; (ii) an increase attributable to higher average rates for certain pay-per-view products; (iii) a \$4,428,000 increase in the aggregate revenue derived from short subject, digital music and television-based Internet products; and (iv) a \$1,164,000 increase in free-to-guest programming revenue. The Company believes that most of the decrease in pay-per-view buys is attributable to a decline in occupancy rates, as further discussed below. A 3.3% reduction in the average number of rooms served by the Company during 2002 also contributed to the decrease in pay-per-view buys. The decline in the average number of rooms served by the Company is attributable to (i) the disposition of certain hotel rooms (as further described in notes 4 and 5 to the accompanying consolidated financial statements); (ii) the loss of rooms to competitors; and (iii) the discontinuance of service to certain non-profitable hotels.

Overall hotel occupancy rates declined 1.0% during 2002, as compared to 2001. In addition, occupancy rates for hotels in the top 25 markets, as defined by Smith Travel Research, declined 1.8% over the same period. Since the Company derives a significant portion of its revenue from hotels located in the top 25 markets, the Company believes that the occupancy rate for this segment is the best indicator of the impact changes in hotel occupancy are having on the Company's business. Hotel occupancy rates are outside of the Company's control, and changes in hotel occupancy rates can have a significant impact on the Company's results of operations.

During 2002, hotels owned, managed or franchised by Marriott International, Inc. ( Marriott ), Hilton Hotels Corporation ( Hilton ), Six Continents Hotels, Inc. ( Six Continents ), Hyatt Hotel Corporation ( Hyatt ), and Starwood Hotels and Resorts Worldwide, Inc. ( Starwood ) accounted for 30%, 16%, 12%, 7% and 7%, respectively, of the Company's net room revenue. Accordingly, hotels owned, managed or franchised by the Company's five largest hotel chain customers accounted for 72% of the Company's total net room revenue during 2002. The loss of any of these hotel chain customers, or the loss of a significant number of other hotel chain customers, could have a material adverse effect on the Company's results of operations and financial condition.

As further discussed below, the Hilton master contract has expired, and Hilton has signed a new master contract with a competitor of the Company. In addition, the Company does not have master contracts with either Starwood or Six Continents, and the Hyatt master contract provides for the simultaneous expiration of the Company's contractual relationships with all of the individual hotels that are subject to the Hyatt master contract as of December 31, 2004. At December 31, 2002 the Company provided entertainment services to approximately 178,000 rooms in hotels that are owned, managed or franchised by Starwood or Six Continents. Agreements with respect to approximately 54% of such Starwood and Six Continents rooms have already expired, or will expire by December 31, 2004. At December 31, 2002, approximately 39,000 or 61% of the Company's Starwood rooms were located in Sheraton or Four Points hotels that, depending on whether such hotels are owned, managed or franchised by Starwood, may be covered by a master contract with a competitor of the Company upon the expiration of such hotels contracts with the Company. The Company is actively pursuing master agreements with Hyatt and Six Continents, and with Starwood with respect to the Starwood brands that are not already covered by a competitor's contract. In certain cases, the Company is also pursuing direct contractual relationships with individual hotels that are owned, managed or franchised by these hotel chains. No assurance can be given that the Company will be successful in executing master or individual hotel contracts. Due to the significant cost involved in changing the proprietary video equipment installed in hotels, the Company expects that, regardless of the expiration dates of master contracts or individual contracts with hotels, the Company will continue to be the provider of in-room entertainment services for individual hotels that are not under contract until such time as a competitor's equipment can be installed. For this and other reasons, the Company does not anticipate that it will cease earning revenue from all of its Hyatt rooms on December 31, 2004 in the event that a new master contract has not been executed by that date.

In October 2000, Hilton announced that it would not be renewing its master contract with the Company. As a result, hotels owned, managed or franchised by Hilton are currently subject to a master contract between Hilton and a competitor of the Company. Accordingly, the Company anticipates that hotels owned by Hilton will not renew their contracts as they expire. On the other hand, hotels that are managed or franchised by

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Hilton are not precluded from renewing their contracts with the Company, and, although no assurance can be given, the Company anticipates that certain of those hotels will choose to renew. At December 31, 2002, the Company provided service to approximately 126,200 rooms in 534 hotels that are owned, managed or franchised by Hilton. The majority of these rooms are located in managed or franchised hotels that are not owned by Hilton. Through December 31, 2002, the Company's contracts with 71 of the aforementioned 534 hotels (20,400 rooms) had expired and service to these hotels is currently provided under monthly or other short-term renewals. The Company's individual contracts with the remaining 463 Hilton hotels (105,800 rooms) expire at various dates through 2010, with 56% of those rooms expiring by 2005. During 2002, the Company entered into new contracts, or renewed existing contracts, with respect to 7,000 rooms that were franchised by Hilton, and 2,600 rooms that were managed by Hilton. Over time, the Company anticipates that the revenue it derives from hotels that are owned, managed or franchised by Hilton will decrease. However, due to the uncertainties involved, the Company is currently unable to predict the amount and timing of the revenue decreases.

Video system and equipment and other revenue increased \$604,000 or 5.4% during 2002, as compared to 2001. Such increases are primarily attributable to the net effect of (i) a \$1,811,000 increase in sales of the Company's music systems; and (ii) a \$1,018,000 decrease in sales of the Company's video systems and equipment.

*Direct Costs*

Direct costs consist primarily of fees paid to movie and other content providers, hotel commissions, direct costs associated with the Company's Internet product, and costs associated with video and music systems sold to other providers.

Content fees, commissions and other in-room service costs increased \$2,416,000 or 2.1% during 2002, as compared to 2001. Such increase represents the net effect of (i) a \$4,083,000 increase in free-to-guest programming costs; (ii) a \$2,074,000 reduction in Internet direct costs; (iii) a \$1,783,000 increase in hotel commissions; and (iv) a \$1,329,000 decrease attributable to the third quarter 2002 reversal of accruals deemed no longer needed for their originally intended purpose. The increase in free-to-guest programming costs is primarily the result of higher rates from programming suppliers. Hotel commissions, as a percentage of total net room revenue, increased slightly during 2002, as compared to 2001. In the aggregate, content fees, commissions and other in-room service costs represented 50.8% and 49.3% of total net room revenue during 2002 and 2001, respectively. Certain of the Company's content fees and other in-room service costs do not vary with room revenue and occupancy rates.

Video system, equipment and other costs decreased \$810,000 or 11.0% during 2002, as compared to 2001. Such decreases are primarily attributable to the net effect of (i) a \$1,756,000 decrease associated with the lower sales of video systems and equipment to third parties; and (ii) a \$683,000 increase associated with higher sales of music systems.

The Company is a party to various agreements with programming suppliers that permit the Company to distribute movies and programming networks. The Company expects that the cost of such movies and programming networks will increase in future periods as contracts expire and renewals are negotiated. Certain of the Company's contracts with hotel customers limit the amount of any cost increases that can be passed on to any such hotels. Any cost increases that the Company is not able to pass on to its customers would result in increased pressure on the Company's operating margins.

*Operations Support*

Operations support expense includes the labor, materials and overhead costs associated with the repair, maintenance and support of video systems and other room service equipment. Operations support expense decreased \$5,149,000 or 16.8% during 2002, as compared to 2001. Such decrease is primarily attributable to lower labor, overhead and other operating costs as a result of certain changes to the Company's operational structure and other cost savings measures, including the outsourcing of certain call center and warehouse management functions.

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*Research and Development*

Research and development expense decreased \$1,536,000 or 27.4% during 2002, as compared to 2001. The decrease is primarily attributable to a reduction in internal and external labor costs devoted to research and development projects. A significant portion of the Company's research and development expenses during 2001 related to the development of the Roommate version of the OCX video platform that was launched in November 2001. During 2002, research and development expenses were related to smaller projects that are intended to enhance current platforms.

*Selling, General and Administrative*

Selling, general and administrative expense decreased \$3,355,000 or 13.6% during 2002, as compared to 2001. Such changes represent the net effect of (i) reductions in labor and overhead costs attributable to a May 2001 corporate restructuring and other cost saving measures; and (ii) additional labor costs associated with an employee incentive plan that was initiated in 2002. The percentage of total net revenue that is represented by selling, general and administrative expense was 8.9% and 10.3% during 2002 and 2001, respectively.

*Depreciation and Amortization*

Depreciation and amortization expense decreased \$4,767,000 or 5.7% during 2002, as compared to 2001. Such decrease in depreciation and amortization is primarily the result of the Company's adoption of Statement No. 142, which, as further described in note 2 to the accompanying consolidated financial statements, required the Company to cease recording goodwill amortization effective January 1, 2002. Depreciation remained relatively constant during the 2002 and 2001 periods as reductions to the Company's depreciable asset base attributable to (i) assets becoming fully depreciated, and (ii) asset dispositions (as further described in notes 4 and 5 to the accompanying consolidated financial statements) were largely offset by increases attributable to capital expenditures.

*Asset Impairment and Other Charges*

The Company recorded impairment charges of \$8,850,000 during 2002, including a loss of \$5,103,000 relating to the sale of its European operations, and a loss of \$1,411,000 relating to a transaction in which certain equipment was transferred to STSN, Inc. ( STSN ). For a description of such transactions, see notes 4 and 5 to the accompanying consolidated financial statements. The Company also recorded other charges aggregating \$2,336,000 and \$709,000 during 2002 and 2001, respectively. Such charges are comprised of amounts related to obsolete materials and equipment, and losses on various dispositions of property and equipment, and other assets.

*Relocation and Restructuring*

The Company recorded aggregate relocation and restructuring expense of \$17,041,000 during 2001. This item includes costs related to the relocation of the Company's headquarters from San Jose, California to Denver, Colorado, costs associated with the Company's exit from certain leased premises in San Jose, California, and severance costs related to a May 2001 corporate restructuring plan. The costs attributable to the relocation include severance, stay bonuses, hiring costs, moving and travel costs, contract labor, and redundant labor and overhead costs. The Company completed the relocation of its headquarters during 2001. For additional information, see note 15 to the accompanying consolidated financial statements.

*Interest Expense*

Interest expense decreased \$5,261,000 or 27.2% during 2002, as compared to 2001. The decrease in interest expense is attributable to a lower weighted average interest rate and a decrease in weighted average borrowings outstanding under the Revolving Credit Facility.



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*Impairment of Cost Investments*

Impairment of cost investments was \$6,060,000 and \$19,639,000 during 2002 and 2001, respectively. The 2002 amount represents the Company's fourth quarter write-off of its remaining investment in STSN, Inc. ( STSN ). The 2001 amount includes a \$16,539,000 writedown of the Company's investment in STSN, a \$2,000,000 writedown of the Company's investment in e-ROOM and a \$1,100,000 writedown of the Company's investment in STS Hotel Net, Inc. The foregoing impairments were recorded to reflect other than temporary declines in the estimated fair values of such investments. For additional information, see note 5 to the accompanying consolidated financial statements.

*Loss on Settlement of Litigation*

The loss on settlement of litigation of \$3,700,000 in 2001 relates to the settlement of the litigation with e-ROOM. For additional information, see note 5 to the accompanying consolidated financial statements.

*Income Taxes*

The Company's income tax expense of \$444,000 and \$368,000 during 2002 and 2001, respectively, represents taxes in certain foreign, state and local jurisdictions. The Company's reported income tax expense differs from the expected benefit that would result by applying the statutory rates to the Company's pre-tax losses primarily because the Company is only able to realize income tax benefits for financial reporting purposes to the extent that the Company generates taxable income, or to the extent that tax benefits (i) represent refunds due to the Company or (ii) offset recorded income tax liabilities. For financial reporting purposes, all of the Company's income tax liabilities had been fully offset by income tax benefits at December 31, 2002 and 2001, respectively. For additional information, see note 9 to the accompanying consolidated financial statements of the Company.

*Net Loss*

As a result of the factors described above, the Company's net loss decreased from \$85,716,000 during 2001 to \$42,607,000 during 2002. The Company is attempting to improve its operating results by increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures. Specifically, the Company plans to increase revenue by (i) developing and, to the extent economically feasible, implementing new technologies that will enhance the Company's ability to manage its existing products and/or allow the Company to introduce new or more technologically advanced systems or products; (ii) retaining existing hotel customers and selectively increasing the number of rooms in the Company's traditional target market (generally hotels with 150 or more rooms); (iii) expanding the Company's target market by marketing the MiniMate platform to smaller hotels (generally hotels with less than 150 rooms) and lower cost hotels; and (iv) selectively increasing prices. The Company initiated cost reduction and containment efforts in 2001, and the Company expects to continue to focus on all available opportunities to reduce or contain costs for the foreseeable future. In this regard, the Company believes vendor and customer relationships, outsourcing, and new technologies, such as the Company's new satellite distribution system, are among the areas that will provide opportunities for cost reduction and containment during 2003 and future periods. The Company intends to contain and reduce capital expenditures by continuing its efforts to more effectively manage and deploy capital with a view towards improving the Company's return on its capital expenditures. The Company cannot presently predict the amount of increased revenue, decreased costs or other benefits that might result from its efforts to improve operating results. Furthermore, the Company's ability to accomplish its operating objectives is dependent to a degree on hotel occupancy rates and other factors outside of its control. No assurance can be given that the Company will be able to significantly increase its revenue base or reduce its expenses or capital expenditures. To the extent that changes in hotel occupancy rates impact the Company's revenue base, the Company will not experience proportionate changes in its expenses since many of the Company's expenses do not vary with hotel occupancy rates.

**Table of Contents***2001 vs. 2000**Revenue*

The Company's total net revenue during 2001 and 2000 was \$239,409,000 and \$265,380,000, respectively. The \$25,971,000 or 9.8% decrease in total net revenue during 2001, as compared to 2000, is primarily attributable to a \$20,681,000 or 8.3% decrease in net room revenue. The decrease in net room revenue during 2001 is due to the net effect of (i) a decrease attributable to a lower volume of pay-per-view buys; (ii) an increase attributable to higher average rates for certain pay-per-view products; (iii) a \$3,201,000 increase in the aggregate revenue derived from short subjects, television-based Internet and other new products; and (iv) a \$1,296,000 increase in free-to-guest programming revenue. The Company believes that most of the decrease in pay-per-view buys is attributable to a decline in hotel occupancy rates, as further discussed below. A 3.7% reduction in the average number of rooms served by the Company in 2001, as compared to 2000, also contributed to the decrease in pay-per-view buys. The decline in the average number of rooms served by the Company is primarily attributable to a March 1, 2001 transaction in which the Company transferred approximately 35,000 rooms to e-ROOM in connection with the settlement of certain litigation. In addition, the Company lost rooms to competitors and discontinued service in certain non-profitable rooms during 2001.

Overall hotel occupancy rates declined 5.7% during 2001, as compared to 2000. In addition, occupancy rates for hotels in the top 25 markets, as defined by Smith Travel Research, declined 7.8% over the same period. For additional information concerning the impact of hotel occupancy rates on the Company's operations, see *2002 vs. 2001 Revenue* above.

During 2001, hotels owned, managed or franchised by Marriott, Hilton, Six Continents, Starwood, and Hyatt accounted for 27%, 19%, 12%, 8% and 7% respectively, of the Company's net room revenue. Accordingly hotels owned, managed or franchised by the Company's five largest hotel chains accounted for 73% of the Company's total net room revenue during 2001. The loss of any of these customers, or the loss of a significant number of other hotel chain customers, could have a material adverse effect on the Company's results of operations and financial condition. For a discussion of the status of the Company's relationships with its significant hotel chain customers, see *2002 vs. 2001 Revenue* above.

The \$5,290,000 or 32.1% decline in video system sales and other revenue during 2001, as compared to 2000, is primarily attributable to (i) a \$3,900,000 decrease due to the inclusion of non-recurring license fee revenue in the 2000 amount; and (ii) a \$820,000 decrease in video system and equipment sales. The non-recurring license fee revenue represents a payment received during 2000 for licensing rights to the Company's technologies.

*Direct Costs*

Content fees, commissions and other in-room service costs decreased by \$3,813,000 or 3.3% during 2001, as compared to 2000. Such decrease represents the net effect of (i) a \$10,633,000 aggregate reduction in hotel commissions, license fee royalties and video duplication and distribution costs; (ii) a \$4,270,000 increase in free-to-guest programming costs; and (iii) a \$1,535,000 aggregate increase in the direct costs associated with the Company's television-based Internet and short subject products. Such increases and decreases include an overall net decrease of approximately \$3,000,000 resulting from the disposition of the Company's Asian operations during the first quarter of 2001. The decreases in hotel commissions and license fee royalties are largely the result of decreases in corresponding revenue amounts. The increases in free-to-guest programming costs are the primarily result of higher rates from programming suppliers. In the aggregate, content fees, commissions, and other in-room service costs represented 49.3% and 46.8% of total net room revenue during 2001 and 2000, respectively. Certain of the Company's content fees and other direct in-room service costs do not vary with room revenue and occupancy rates.

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### *Operations Support*

Operations support expense was \$30,738,000 and \$31,245,000 during 2001 and 2000, respectively. The slight decrease from 2000 to 2001 is primarily attributable to a decrease in the number of rooms served by the Company during 2001, as compared to 2000.

### *Research and Development*

Research and Development expense decreased \$3,134,000 or 35.9% from 2000 to 2001. Such decrease is primarily attributable to cost savings that resulted from a reduction in internal and external labor costs devoted to research and development projects. A significant portion of the Company's research and development expenses during 2000 related to the development of the Roommate version of the OCX video platform that was launched in 2001.

### *Selling, General and Administrative*

Selling, general and administrative expense decreased \$707,000 or 2.8% from 2000 to 2001. Such decrease is primarily attributable to lower labor and overhead costs resulting from a May 2001 corporate restructuring and other cost savings measures. The percentage of total net revenue that was represented by selling, general and administrative expense was 10.3% and 9.6% during 2001 and 2000, respectively.

### *Depreciation and Amortization*

The Company experienced a slight decrease in depreciation and amortization expense during 2001, as compared to 2000. Such decrease represents the net effect of (i) increases resulting from capital expenditures and (ii) decreases associated with the disposition of the Company's Asia-Pacific subsidiaries to e-ROOM during the first quarter of 2001, and assets becoming fully depreciated.

### *Asset Impairment and Other Charges*

The Company recorded impairment charges of \$709,000 and \$1,123,000 during 2001 and 2000, respectively. Such charges are comprised of amounts related to obsolete materials and equipment, and losses on various dispositions of property and equipment and other assets.

### *Relocation and Restructuring*

Relocation and restructuring expense was \$17,041,000 and \$6,108,000 during 2001 and 2000, respectively. All of the 2000 amount and \$12,132,000 of the 2001 amount relates to the relocation of the Company's headquarters from San Jose, California to Denver, Colorado. The costs attributable to this relocation include severance, stay bonuses, hiring costs, moving and travel costs, contract labor, and redundant labor and overhead costs. The Company completed the relocation of its headquarters during 2001. The 2001 amount also includes \$2,212,000 of severance costs related to a May 2001 restructuring plan that resulted in a staffing reduction of approximately 50 employees, and \$2,697,000 of future lease obligations (net of estimated sublease income) associated with the Company's exit during the fourth quarter of 2001 from certain leased premises in San Jose, California.

### *Interest Expense*

Interest expense increased \$2,236,000 or 13.0% during 2001, as compared to 2000. Such increase represents the net effect of an increase in the Company's weighted average borrowings and a decrease in the weighted average interest rate.

### *Impairment of Cost Investments*

Impairment of cost investments was \$19,639,000 and \$900,000 during 2001 and 2000, respectively. The 2001 amount includes a \$16,539,000 writedown of the Company's investment in STSN, Inc. ( "STSN" ), a \$2,000,000 writedown of the Company's investment in e-ROOM and a \$1,100,000 writedown of the

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Company's investment in STS Hotel Net, Inc. The writedowns were recorded to reflect other than temporary declines in the estimated fair values of such investments. In the case of the STSN writedown, the estimated fair value was based on the price of securities sold by STSN during the first quarter of 2002.

### *Loss on Settlement of Litigation*

The loss on settlement of litigation of \$3,700,000 and \$4,764,000 during 2001 and 2000 relates to the settlement of the litigation with e-ROOM. For additional information, see note 5 to the accompanying consolidated financial statements.

### *Provision for income taxes*

The Company's income tax expense of \$368,000 and \$423,000 during 2001 and 2000, respectively, represents taxes in certain foreign, state and local jurisdictions. The Company's reported income tax expense differs from the expected benefit that would result by applying the statutory rates to the Company's pre-tax losses primarily because the Company is only able to realize income tax benefits for financial reporting purposes to the extent that the Company generates taxable income, or to the extent that tax benefits (i) represent refunds due to the Company or (ii) offset recorded income tax liabilities. For financial reporting purposes, all of the Company's income tax liabilities had been fully offset by income tax benefits at December 31, 2001 and 2000, respectively. For additional information, see note 9 to the accompanying consolidated financial statements of the Company.

### *Net Loss*

As a result of the factors described above, the Company's net loss increased from \$39,043,000 in 2000 to \$85,716,000 in 2001. As discussed in greater detail above under *2002 vs. 2001 Net Loss* above, the Company is attempting to improve its operating results by increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures.

## ***Liquidity and Capital Resources***

### *Material Changes in Financial Condition*

During 2002, the Company used \$61,740,000 of cash provided by operating activities to fund the \$55,855,000 used by its investing activities, and the \$4,033,000 used by its financing activities. The Company's investing activities included \$54,391,000 of capital expenditures. The Company's financing activities included net repayments of the Revolving Credit Facility in the amount of \$2,000,000. For additional information, see the accompanying consolidated statements of cash flows.

At December 31, 2002, the Company's Revolving Credit Facility, as amended in 2001, provided for aggregate borrowings of \$275,000,000. Borrowings under the Revolving Credit Facility are due and payable in July 2004. The Company had \$13,367,000 of remaining availability under the Revolving Credit Facility at December 31, 2002. The Company's ability to draw additional funds under the Revolving Credit Facility is subject to the Company's continued compliance with applicable financial covenants.

At December 31, 2002, the maximum leverage ratio permitted under the Revolving Credit Facility was 4.25, and the Company's actual leverage ratio was 3.99. The maximum leverage ratio permitted under the Revolving Credit Facility at March 31, 2003 is 3.50. Although the Company is in compliance with the leverage ratio covenant at December 31, 2002, the Company believes that it would not have been in compliance with such covenant at March 31, 2003. In March 2003, the Company reached agreement with its bank lenders to postpone until June 29, 2003 the step-down of the leverage ratio covenant from 4.25 to 3.50. The Company is also seeking to restructure the Revolving Credit Facility to, among other matters, extend the maturity date to December 31, 2007. It is anticipated that any closing of the restructuring of the Revolving Credit Facility will be contingent upon the contribution of \$40,000,000 by Liberty or one of its affiliates to the Company to be used to repay principle due, and permanently reduce lender commitments, pursuant to the restructured Revolving Credit Facility. The terms of the proposed Liberty contribution (including the

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securities or other consideration to be received by Liberty or its affiliate in exchange for such contribution) have not yet been agreed upon, and no assurance can be given that Liberty or its affiliate will contribute \$40,000,000 to the Company, as contemplated by the terms of the proposed restructuring. In the event the Company determines that it is unlikely that the proposed restructuring of the Revolving Credit Facility will close on or before June 29, 2003, the Company anticipates that it would seek a further postponement of the step-down of the leverage ratio covenant, and would continue to seek to refinance or restructure the Revolving Credit Facility. In the event that a restructuring or refinancing is not completed by the date that the leverage ratio is reduced to 3.50, the Company anticipates that a default would occur under the terms of the Revolving Credit Facility. Upon the occurrence of a default, if left uncured, the bank lenders would have various remedies, including terminating their revolving loan commitment, declaring all outstanding loan amounts including interest immediately due and payable, and exercising their rights against their collateral which consists of substantially all of the Company's assets. No assurance can be given that the Company will be able to successfully restructure or refinance the Revolving Credit Facility on terms acceptable to the Company, or that the Company will be able to avoid a default under the Revolving Credit Facility. In light of the foregoing circumstances, the Company's independent auditors have included an explanatory paragraph in their audit report that addresses the ability of the Company to continue as a going concern.

Revolving loans extended under the Revolving Credit Facility bear interest at LIBOR plus a spread that may range from 1.10% to 2.75% depending on certain operating ratios of the Company (3.94% effective borrowing rate at December 31, 2002). In addition, a facility fee ranging from 0.15% to 0.50% per annum is charged on the Revolving Credit Facility, depending on certain operating ratios of the Company. The Revolving Credit Facility contains customary covenants and limitations, most notably the inclusion of restrictions on the Company's ability to pay dividends or make other distributions, and restrictions on the Company's ability to make capital expenditures. In addition, the Company is required to maintain leverage and interest coverage ratios. The Company was in compliance with such covenants at December 31, 2002. Substantially all of the Company's assets are pledged as collateral for borrowings under the Revolving Credit Facility.

During 2001, the Company issued to Ascent Entertainment Group, Inc. (Ascent) Series B Cumulative Redeemable Preferred Stock, par value \$.01 per share (the Series B Preferred Stock), Series C Cumulative Redeemable Preferred Stock, par value \$.01 per share (the Series C Preferred Stock) and Series D Cumulative Convertible Redeemable Preferred Stock, par value \$.01 per share (Series D Preferred Stock) in exchange for aggregate net cash proceeds of \$84,926,000. The Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are classified as mandatorily redeemable preferred stock within the accompanying balance sheet due to the fact that, under certain circumstances and subject to certain restrictions, Ascent could require the Company to redeem such mandatorily redeemable preferred stock. Although no assurance can be given, the Company does not anticipate that any such redemption will be required for the foreseeable future. Accumulated and unpaid dividends on the Company's Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock aggregated \$12,922,000 at December 31, 2002. Such dividends have been added to the liquidation preference of the applicable preferred stock issuance since the Company has not paid any cash dividends since issuance. The Company does not intend to pay cash dividends on any of its preferred stock issuances for the foreseeable future.

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Information concerning the timing of the Company's required payments due under various contractual obligations as of December 31, 2002 is summarized below (amounts in thousands):

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than One Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Revolving Credit Facility	\$261,633	\$	\$261,633	\$	\$
Mandatorily redeemable preferred stock(1)	97,848		30,899		66,949
Operating leases	6,637	3,229	3,005	400	3
Obligation to repurchase Company Common Stock	2,333		2,333		
Capital lease obligations	1,146	833	310	3	
	<u>\$369,597</u>	<u>\$4,062</u>	<u>\$298,180</u>	<u>\$403</u>	<u>\$66,952</u>

- (1) For additional information concerning the redemption provisions of the mandatory redeemable preferred stock, see note 7 to the accompanying consolidated financial statements of the Company.

In connection with a first quarter 2001 transaction, the Company agreed that e-ROOM would have the option during the 15-day period beginning on March 1, 2003 to cause the Company to repurchase all, but not less than all, of the 275,000 shares of Company Common Stock issued to e-ROOM at a price of \$15 per share. During the fourth quarter of 2002, the Company repurchased 119,500 of such shares for an aggregate price of \$1,344,000 or \$11.25 per share. The \$448,000 excess of the repurchase obligation, calculated at \$15 per share, over the aggregate price paid to repurchase such shares has been reflected as an adjustment to net loss attributable to common stockholders in the accompanying consolidated statements of operations. In connection with this transaction, the parties agreed to postpone until March 1, 2004 the date on which the Company can be required to repurchase 119,500 shares of the remaining shares subject to repurchase. The Company is not precluded from repurchasing such shares at an earlier date. The repurchase price for such shares will be \$15 per share, plus an adjustment factor calculated from March 1, 2003 to the date of repurchase, at a rate of 8% per annum. Subsequent to December 31, 2002, the date on which the remaining 36,000 shares will first become subject to repurchase by the Company was postponed until March 1, 2004. The repurchase price for such shares will remain at \$15 per share.

On February 28, 2001, the Company acquired a controlling interest in Hotel Digital Network, Inc. ( Hotel Digital Network ). In connection with such acquisition, the Company entered into a stockholders' agreement (the HDN Stockholders' Agreement ) with the then controlling stockholder of Hotel Digital Network (the HDN Stockholder ). The HDN Stockholders' Agreement provides the HDN Stockholder with the right during each of the 30-day periods beginning on March 1, 2003 and 2004 to require the Company to exchange shares of Company Common Stock for all, but not less than all, of the HDN common shares held by the HDN Stockholder. On March 20, 2003, the HDN Stockholder exercised such right. The HDN Stockholders' Agreement also provides the Company with the right during the 30-day period beginning on March 1, 2006 to require the HDN Stockholder to exchange all, but not less than all, of his HDN common shares for shares of Company Common Stock. The number of shares of Company Common Stock to be issued in any such exchanges will be determined based on the then market value of Company Common Stock, and the then fair value of HDN common stock, each as determined in accordance with the HDN Stockholders' Agreement. At December 31, 2002, the Company held 85.9%, and the HDN Stockholder held 13.3% of the outstanding HDN common stock. Based on the Company's current assessment of values, the Company does not expect that the settlement of this obligation will have a material impact on its capitalization, financial condition or results of operations.

Historically, the Company has required external financing to fund the cost of installing and upgrading video systems in hotels. However, during 2002 the Company was able to manage its operations and capital expenditures such that the Company was able to rely on internally generated funds and existing sources of liquidity to finance its installation and upgrade activities. During 2003 and future periods, the Company

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intends to continue to focus its efforts on increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures. Assuming the Company meets its operating and capital expenditure targets for 2003, the Company expects that it will be able to rely on cash provided by operations, existing availability under the Revolving Credit Facility, and existing cash and cash equivalent balances to fund its capital expenditures and other anticipated liquidity requirements during 2003. The Company's operating plan for 2003 is based in part on the assumption that hotel occupancy rates will increase modestly from 2002 to 2003. To the extent that the Company was to experience a revenue shortfall or any other unfavorable variance from its 2003 operating plan, the Company would seek to reduce expenses and/or capital expenditures to compensate for any such shortfall or unfavorable variance. Accordingly, the Company believes, although no assurance can be given, that it will not require additional sources of liquidity to fund its capital expenditures and anticipated liquidity requirements during 2003. Notwithstanding the foregoing, the Company anticipates that it would require additional external financing to (i) fund any significant new growth initiatives or unanticipated liquidity requirements; or (ii) refinance the Revolving Credit Facility, if necessary (as discussed above). No assurance can be given that the Company will not be required to seek external financing during 2003, and if external financing is required, no assurance can be given that any such financing would be available on terms acceptable to the Company or at all.

For recent developments regarding the Liberty Media \$40 million contribution, the Revolving Credit Facility and the Amended and Restated Credit Agreement, please see the section entitled "The Companies Involved in the Merger - On Command - Recent Developments" on page 23 of this proxy statement/prospectus.

**Recent Accounting Pronouncements**

During 2003 and 2002, the Financial Accounting Standards Board issued a number of new Statements of Financial Accounting Standards. For information concerning the anticipated effect that such pronouncements will have on the Company's consolidated financial statements, see note 2 to the accompanying consolidated financial statements.

***Quantitative and Qualitative Disclosures About Market Risk***

The Company is exposed to market risk from changes in interest rates, which could impact its results of operations and financial condition, particularly the Company's interest expense and cash flow. The Company does not hedge this exposure. Revolving loans extended under the Revolving Credit Facility generally bear interest at a variable rate based on LIBOR and certain operating ratios of the Company. At December 31, 2002, the outstanding borrowings under the Revolving Credit Facility were \$261,633,000. Exclusive of facility fees, the effective borrowing rate on amounts outstanding under the Revolving Credit Facility was 3.94% at December 31, 2002. Assuming no increase or decrease in the amount outstanding, a hypothetical 1% increase (or decrease) in interest rates at December 31, 2002 would increase (or decrease) the Company's annual interest expense and cash outflow by approximately \$2,616,000.

On Command's foreign operations are located primarily in Canada and Mexico. On Command believes the risks of foreign exchange rate fluctuations on its present operations are not material to On Command's overall financial condition. However, On Command will consider using foreign currency contracts, swap arrangements, or other financial instruments designed to limit exposure to foreign exchange rate fluctuations, if deemed prudent.

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**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Stockholders

On Command Corporation:

We have audited the accompanying consolidated balance sheets of On Command Corporation (an indirect consolidated subsidiary of Liberty Media Corporation) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of On Command Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 6 to the consolidated financial statements, at December 31, 2002, the maximum leverage ratio permitted under the Company's debt facility was 4.25, and the Company's actual leverage ratio was 3.99. Because the maximum leverage ratio permitted at March 31, 2003 steps down to 3.50, the Company believes that it would not have been in compliance with such covenant at March 31, 2003 had it not reached agreement with its bank lenders to postpone, until June 29, 2003, the step down of the leverage ratio from 4.25 to 3.50. The Company is seeking to restructure the debt facility and such restructuring is contingent on certain events, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also described in note 6. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002.

KPMG LLP

Denver, Colorado  
February 12, 2003, except as

to Note 6 to the consolidated  
financial statements, which is  
as of March 28, 2003

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**Table of Contents****ON COMMAND CORPORATION****(An Indirect Consolidated Subsidiary of Liberty Media Corporation)****CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2002	2001
	(amounts in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,501	\$ 2,869
Accounts receivable (net of allowance for doubtful accounts of \$1,087,000 in 2002 and \$1,640,000 in 2001)	33,525	33,460
Other current assets	3,461	2,964
	<u>41,487</u>	<u>39,293</u>
Property and equipment:		
Video systems		
In service	668,697	670,318
Construction in progress	37,511	53,754
	<u>706,208</u>	<u>724,072</u>
Support equipment, vehicles and leasehold improvements	26,245	27,148
	<u>732,453</u>	<u>751,220</u>
Accumulated depreciation	(457,482)	(442,757)
	<u>274,971</u>	<u>308,463</u>
Goodwill (note 2)	65,580	65,580
Cost investments (note 5)	3,298	6,759
Other assets, net	11,146	12,943
	<u>396,482</u>	<u>433,038</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 28,689	\$ 21,021
Accounts payable to parent (note 10)	1,906	711
Accrued compensation	6,433	5,511
Sales, use and property tax liabilities	4,585	5,144
Other accrued liabilities (note 15)	7,987	6,678
Current portion of debt (note 6)	833	909
	<u>50,433</u>	<u>39,974</u>
Long-term debt (note 6)	261,946	264,761
Other long-term liabilities (note 14)	496	1,642
	<u>262,442</u>	<u>266,403</u>

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Total liabilities	312,875	306,377
Minority interest in consolidated subsidiary	259	117
Redeemable securities (note 7):		
Mandatorily redeemable preferred stock	97,848	89,185
Common stock subject to repurchase obligation	2,333	4,125
Total redeemable securities	100,181	93,310
Stockholders' equity (deficit) (note 8):		
Preferred stock, \$.01 par value; shares authorized 10,000,000; shares issued and outstanding 98,500 in 2002 and 2001		
Common stock, \$.01 par value; shares authorized 150,000,000; shares issued 30,973,989 in 2002 and 30,884,459 in 2001		
	310	309
Additional paid-in-capital	299,398	304,429
Accumulated other comprehensive loss	(4,533)	(5,115)
Accumulated deficit	(285,777)	(243,170)
	9,398	56,453
Common stock held in treasury, at cost (119,500 in 2002 and zero in 2001)		
	(1,344)	
Note receivable from stockholder (note 11)	(24,887)	(23,219)
Total stockholders' equity (deficit)	(16,833)	33,234
Commitments and contingencies (notes 4, 6, 12 and 16)		
Total liabilities and stockholders' equity (deficit)	\$ 396,482	\$ 433,038

See accompanying notes to consolidated financial statements.

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**ON COMMAND CORPORATION**

**(An Indirect Consolidated Subsidiary of Liberty Media Corporation)**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2002	2001	2000
	(amounts in thousands, except per share amounts)		
Net revenue:			
Net room revenue	\$226,621	\$228,237	\$248,918
Video system and equipment sales and other	11,776	11,172	16,462
	<u>238,397</u>	<u>239,409</u>	<u>265,380</u>
Direct costs of net revenue:			