CRACKER BARREL OLD COUNTRY STORE, INC
Form PRRN14A
October 05, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 2)

Filed by the Registrant o

Filed by a Party other than the Registrant x

Check the appropriate box:

x Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule14a-6(e)(2))

¨ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Under Rule 14a-12

CRACKER BARREL OLD COUNTRY STORE, INC.
(Name of Registrant as Specified in Its Charter)

BIGLARI HOLDINGS INC.
BIGLARI CAPITAL CORP.
THE LION FUND, L.P.
STEAK N SHAKE OPERATIONS, INC.
SARDAR BIGLARI
PHILIP L. COOLEY
(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(5) Total fee paid:

¨ Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED OCTOBER 4, 2012

BIGLARI HOLDINGS INC.
17802 IH 10 WEST, SUITE 400
SAN ANTONIO, TEXAS 78257
TELEPHONE (210) 344-3400
FAX (210) 344-3411

___________ __, 2012

Dear Fellow Shareholder:

Biglari Holdings Inc. ("Biglari Holdings") and the other participants in this solicitation (collectively, "Biglari," "our," or "we") are the beneficial owners of an aggregate of 4,091,037 shares of common stock of Cracker Barrel Old Country Store, Inc. ("Cracker Barrel" or the "Company"), thereby representing approximately 17.3% of the Company's outstanding shares of common stock. As the single largest shareholder of the Company — a figure higher than the next three largest shareholders as well as the combined ownership of the Board — we are convinced that because of our financial incentives along with our expertise in the restaurant industry, our presence on the Board would help increase the value of the Company. Thus, we are seeking your support at the annual meeting of shareholders (the "Annual Meeting") scheduled to be held on November 15, 2012 at 10:00 a.m. Central Time at 305 Hartmann Drive, Lebanon, Tennessee 37087, for the following purposes:

1. To elect our director nominees, Sardar Biglari and Philip L. Cooley, to the Board of Directors of Cracker Barrel in opposition to two of the Company's incumbent directors

2. To oppose the Company's shareholder rights plan, or "poison pill"

3. To conduct an advisory vote on executive compensation, often referred to as a "say on pay"

4. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for its 2013 fiscal year

5. To transact any other business that may properly be raised before the Annual Meeting or any adjournment(s) thereof

We are seeking two seats on the Company's Board of Directors to ensure that the interests of the shareholders, the true owners of Cracker Barrel, are properly represented in the boardroom. The Board is currently composed of 14 directors, of whom four are not standing for re-election at the Annual Meeting.

We are not seeking control of the Board of Directors. With only two Board seats we cannot control the Board, and any claim to the contrary would be completely false and misleading. As the largest shareholder of the Company, we aim to represent all shareholders. Our sole interest is to obtain seats on the Board in order to maximize the value of the Company. We have more of our net worth tied to the performance of the stock of Cracker Barrel than does any current Board member of Cracker Barrel or any other shareholder of the Company. You should note, however, that even if we are elected, we would represent a minority of the members of the Board, and therefore it is not assured that we will be able to enhance shareholder value.

We are soliciting proxies to elect not only our director nominees but also the candidates who have been nominated by the Company other than _______________ and _______________. This process enables shareholders the ability to vote for the total number of directors up for election at the Annual Meeting. The names, backgrounds and qualifications of the Company's nominees, added to other information about them, can be found in the Company's proxy statement. There is no assurance that any of the Company's nominees will serve as directors if our nominees are elected.

We urge you to consider carefully the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed GOLD proxy card today. The attached Proxy Statement and the enclosed GOLD proxy card are first being furnished to the shareholders on or about _____________, 2012.

You must be very careful not to sign the Company's White proxy card if you want to vote for our nominees. To vote for Messrs. Biglari and Cooley, you will find it imperative to disregard all White proxy cards. If you have already voted the White proxy card furnished by the Company, you may exercise your right to change your vote by signing, dating and returning a GOLD proxy card at a later date or by voting in person at the Annual Meeting.

If you have any questions or require any assistance with your vote, please contact Morrow & Co., LLC, which is assisting us. Its address and toll-free number are listed on the following page to offer you help in casting your vote.

Your support is very important.

Sincerely,

/s/ Sardar Biglari

Sardar Biglari
Biglari Holdings Inc.

YOUR VOTE IS IMPORTANT

Please mark, sign and date your GOLD proxy card and return it promptly in the enclosed envelope, whether or not you plan to attend the meeting. If you own shares in a brokerage account, your broker cannot vote your shares without your instructions. Therefore, it is imperative that you exercise your right as a shareholder and vote the GOLD card.

If you have any questions, require assistance in voting your GOLD proxy card,
or need additional copies of Biglari's proxy materials, please call
Morrow & Co., LLC at the phone numbers listed below.

MORROW & CO., LLC
470 West Avenue
Stamford, CT 06902

Shareholders call toll free at: (877) 849-0763

Banks and brokers call: (203) 658-9400

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED OCTOBER 4, 2012

ANNUAL MEETING OF SHAREHOLDERS
OF
CRACKER BARREL OLD COUNTRY STORE, INC.

PROXY STATEMENT
OF
BIGLARI HOLDINGS INC.

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

This Proxy Statement and the enclosed GOLD proxy card are being furnished by Biglari Holdings Inc. ("Biglari Holdings"), Biglari Capital Corp. ("Biglari Capital"), The Lion Fund, L.P. (the "Lion Fund"), Steak n Shake Operations, Inc. ("Steak n Shake"), Sardar Biglari and Philip L. Cooley (collectively, "Biglari," "our" or "we"), the largest shareholder of Cracker Barrel Old Country Store, Inc., a Tennessee corporation ("Cracker Barrel" or the "Company"). We are writing to seek your support for the election of our director nominees to the Board of Directors of the Company (the "Board") at the annual meeting of shareholders scheduled to be held on November 15, 2012 at 10:00 a.m. Central Time at 305 Hartmann Drive, Lebanon, Tennessee 37087, (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the "Annual Meeting"). This proxy statement (the "Proxy Statement") and the enclosed GOLD proxy card are first being furnished to shareholders on or about ___________, 2012.

This Proxy Statement and the enclosed GOLD proxy card are being furnished to shareholders of Cracker Barrel by Biglari in connection with the solicitation of proxies from Cracker Barrel shareholders for the following purposes:

1. To elect our director nominees, Sardar Biglari and Philip L. Cooley (each, a "Nominee" and, together, the "Nominees"), to the Board of Directors of Cracker Barrel in opposition to two of the Company's incumbent directors whose terms expire at the Annual Meeting

2. To oppose the Company's shareholder rights plan, or "poison pill"

3. To conduct an advisory vote on executive compensation, often referred to as a "say on pay" (the "Say on Pay Proposal")

4. To ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for its 2013 fiscal year

5. To transact any other business that may properly be raised before the Annual Meeting or any adjournment(s) thereof

This Proxy Statement is soliciting proxies to elect not only our Nominees, but also the candidates who have been nominated by the Company other than ___________ and ___________. This gives shareholders who wish to vote for our Nominees the ability to vote for a full slate of directors.

The Company has set the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting as September 21, 2012 (the "Record Date"). The mailing address of the principal executive offices of the Company is 305 Hartmann Drive, Lebanon, Tennessee 37087. Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company, as of the Record Date, there were 23,642,398 shares of common stock, $0.01 par value per share (the "Shares"), outstanding and entitled to vote at the Annual Meeting. As of the Record Date, Biglari beneficially owned an aggregate of 4,091,037 Shares, which represents approximately 17.3% of the Shares outstanding (based on the Company's proxy statement). We intend to vote such Shares (i) FOR the election of the Nominees to the Board; (ii) AGAINST the Company's shareholder rights plan, or poison pill; (iii) AGAINST the Say on Pay Proposal; and (iv) FOR the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for its 2013 fiscal year.
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THIS SOLICITATION IS BEING MADE BY BIGLARI AND NOT ON BEHALF OF THE BOARD OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS DESCRIBED HEREIN. SHOULD OTHER MATTERS, WHICH WE ARE NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

WE URGE YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF OUR NOMINEES, AGAINST THE COMPANY'S SHAREHOLDER RIGHTS PLAN, OR POISON PILL, AND AGAINST THE SAY ON PAY PROPOSAL.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY THE COMPANY'S MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE FOR EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT, INCLUDING THE ELECTION OF BIGLARI'S NOMINEES, BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING TO BIGLARI, C/O MORROW & CO., LLC, WHICH IS ASSISTING IN THIS SOLICITATION, OR TO THE SECRETARY OF THE COMPANY, OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting

This Proxy Statement and GOLD proxy card are available at
www.enhancecrackerbarrel.com/proxy

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IMPORTANT

Your vote is important, no matter how many Shares you own. We urge you to sign, date, and return the enclosed GOLD proxy card today to vote FOR the election of our Nominees.

- If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it today to Biglari, c/o Morrow & Co., LLC, in the enclosed envelope.

- If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.

- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or through the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any White proxy card you receive from the Company. Even if you return the White proxy card marked “withhold” as a protest against the incumbent directors, it will revoke any GOLD proxy card you may have previously sent to us. The last card you submit must be the GOLD proxy card. Remember, you can vote for our independent Nominees only on our GOLD proxy card. So please make certain that the latest dated proxy card you return is the GOLD proxy card.

Please call Morrow & Co., LLC if you need assistance in voting your GOLD card:

MORROW & CO., LLC
470 West Avenue
Stamford, CT 06902

Shareholders call toll free at: (877) 849-0763

Banks and brokers call: (203) 658-9400

BACKGROUND OF THE SOLICITATION

At the Company's 2011 annual meeting of shareholders, Biglari previously nominated Sardar Biglari for election to the Board. The following is a chronology of events leading up to the proxy solicitation related to the 2012 Annual Meeting:

- On April 10, 2012, Cracker Barrel announced that its Board had adopted a shareholder rights plan, or poison pill, that effectively prevents any shareholder from purchasing 20% or more of the Company (other than in connection with a qualifying cash tender offer) in response to the "possibility" that Biglari Holdings could acquire a "potentially controlling" position in Cracker Barrel. The fact remains that Biglari is not seeking to obtain a controlling ownership in the Company or control of the Board. Additionally and even more important, there are Tennessee statutes that protect shareholders: When a shareholder owns more than 20% of the Company, any shares in excess of the 20% threshold cannot be voted by the shareholder without other shareholders agreeing to it.

- On April 19, 2012, Sardar Biglari, Chairman and Chief Executive Officer of Biglari Holdings, issued a letter to Cracker Barrel shareholders calling for Michael Woodhouse, Charles Jones, Robert Dale, and Jack Lowery to be removed from the Board because we are convinced that under their stewardship Cracker Barrel's performance has been lackluster, measured, inter alia, by an erosion of per-store profit. The letter exhorted Cracker Barrel's management to institute clear, written performance goals for the Company. Further, the letter urged owner-oriented shareholders to join in Biglari's value-maximization mission and pledged, in return, that Biglari would not sell a single share. Should Biglari choose to sell any shares, it would first provide a public notice at least two weeks in advance of the sale.

- On April 26, 2012, Cracker Barrel announced that it had entered into an amendment to its credit facility which, among other information, increased the aggregate amount of share and option purchases and redemptions permitted by the Company under its credit facility, thus increasing the total from $65 million to $100 million. In Mr. Biglari's letter to shareholders dated November 14, 2011, he had urged the Board to "improve the flexibility in the credit agreement to allow for greater share repurchases."

- On May 31, 2012, Cracker Barrel announced that Robert Dale and Jack Lowery, two of the directors for whom Biglari had advocated removal from the Board, would not stand for re-election at the Annual Meeting. The Company also announced that it had increased the size of the Board from 11 to 13 members and then elected Thomas H. Barr and Glenn A. Davenport to serve as directors.

- On August 6, 2012, Cracker Barrel announced that Michael Woodhouse and Charles Jones, the other two directors whom Biglari had insisted on removing from the Board, would not stand for re-election at the Annual Meeting. The Company also announced that Mr. Woodhouse would retire as Executive Chairman of the Board effective November 7, 2012, allowing the Board to name James W. Bradford as non-executive Chairman when Mr. Woodhouse would step down.

- On August 13, 2012, Cracker Barrel announced that it had increased the size of the Board from 13 to 14 members and had elected Norman E. Johnson to serve as a director.

· On August 13, 2012, Mr. Biglari and Dr. Cooley held a telephone conference with Sandra B. Cochran, President and Chief Executive Officer of Cracker Barrel, and Lawrence E. Hyatt, Senior Vice President and Chief Financial Officer of Cracker Barrel, in which Mr. Biglari emphasized Biglari's intent to continue as a long-term shareholder of Cracker Barrel. Mr. Biglari also expressed his and Dr. Cooley's desire to work constructively with the Company's new independent directors for the benefit of all shareholders. To advance the idea productively, Mr. Biglari requested a meeting with Mr. Bradford in view of his having been recently designated non-executive Chairman upon Mr. Woodhouse's retirement.

· On August 16, 2012, Mr. Biglari and Dr. Cooley met with Mr. Bradford and William W. McCarten, another director of the Company, in Nashville, Tennessee. During this meeting, Mr. Biglari and Dr. Cooley expressed their interest in being long-term stockholders and their desire to join the Board. They reiterated their view that it is vital to select members on the Board with exceptional industry expertise and crucial ownership in the Company. Mr. Biglari and Dr. Cooley communicated that a letter was being delivered to nominate them for election to the Board only to make the deadline set by the Company. Mr. Biglari and Dr. Cooley stressed their desire to work productively with the Board.

· On August 16, 2012, Biglari Holdings delivered a letter to the Corporate Secretary of the Company nominating Sardar Biglari and Philip L. Cooley as possible Board members elected by the shareholders of the Company at the Annual Meeting. The letter was delivered in order to comply with the Company's advance notice deadline for director nominations, which the Company had accelerated by moving the Annual Meeting to a date more than 30 days prior to the anniversary of the preceding year's annual meeting. In its Schedule 13D announcing the nominations, Biglari reiterated its belief that the Board requires directors who have a meaningful ownership interest in the Company as well as highly consequential industry experience. Because of the recent changes on the Board, Biglari was hopeful that Mr. Biglari and Dr. Cooley had the proper qualifications to serve on the Board of Cracker Barrel, could work constructively with the new Board, and as a consequence could avoid a costly and unnecessary proxy contest.

· On September 5, 2012, Mr. Biglari received a letter from Cracker Barrel in which it asked Biglari Holdings to present names of individuals unaffiliated with Biglari Holdings and unaffiliated with any restaurant company that competes with Cracker Barrel. The letter did not offer two Board seats to representatives of Biglari Holdings. Rather, the letter proposed the idea of submitting names that could be rejected by Cracker Barrel. The letter also included a standstill; that is, Biglari Holdings would be required (i) to support the Board-recommended slate of nominees at the Annual Meeting and (ii) not to seek to call or support the call for any special meeting of Cracker Barrel shareholders prior to the Company's 2013 annual meeting. Biglari believes that the Board's offer was not serious because any shareholder can nominate individuals to the Board; thus, Biglari believes the offer was presented by the Board to posture and mislead shareholders — all in an obvious attempt to appear reasonable.

· On the same day, Biglari issued a press release regarding Cracker Barrel's "offer." The release noted that Cracker Barrel's ersatz proposal had two fundamental flaws: requiring that Biglari nominate two persons to the Board who have (1) no relevant restaurant experience and (2) no significant ownership in Cracker Barrel's stock. The release continued that, in Biglari's view, it is simply irrational to deny an 18% shareholder two Board seats, when Biglari has purchased approximately $200 million of Cracker Barrel's stock in the open market. Biglari concluded that the decision to avoid a proxy contest rests completely with the Board.

- On September 6, 2012, Cracker Barrel issued a press release reconfirming its offer to Biglari.

- On September 12, 2012, Biglari delivered a letter to the Corporate Secretary of the Company requesting certain shareholder lists in accordance with Tennessee law to communicate with shareholders in connection with the Annual Meeting. In the letter, Biglari underscored in particular its request for a list of the non-objecting beneficial owners of the Shares ("NOBO List"). Biglari stated its belief that the production of the NOBO List is vital to ensuring the participation of all shareholders as properly designated to vote to elect directors. Although Cracker Barrel can easily obtain a NOBO List, it refused to order one in last year's proxy contest even after we requested the list. We demanded that Cracker Barrel order a NOBO list; we believe that Cracker Barrel's continuing failure to order and thus provide us with a NOBO List is clear evidence of the Company's attempt to stifle our Nominees' ability to communicate with all the Company's owners, especially with the smaller shareholders. Cracker Barrel is able to order a NOBO list, but thus far it has refused to do so. Biglari has offered to pay for any expenses in connection with ordering a NOBO List. Nonetheless, Cracker Barrel has again failed to order and provide a NOBO list.

- On September 19, 2012, the Company responded to Biglari's September 12, 2012 request for certain shareholder lists. Cracker Barrel again failed to provide a NOBO List.

- On September 25, 2012, Biglari Holdings issued a press release regarding a settlement it had reached with the Federal Trade Commission (the "FTC") relating to its purchase of Shares on June 8, 9, 10, and 13 of 2011. All purchases of Shares by Biglari have been fully and promptly disclosed in the marketplace. Although there was no conversation between Biglari and Cracker Barrel before Biglari's Schedule 13D filing of June 13, 2011, the FTC nevertheless alleged that a Hart-Scott-Rodino ("HSR") filing should have occurred. To avoid the unnecessary legal expense caused by the FTC process, Biglari settled for $850,000. There was no intentionality behind failing to file a HSR notice; it was an inadvertent error of not filing the HSR notice in a timely manner. When the HSR notice was filed, the FTC granted permission for Biglari to purchase additional Shares .

REASONS FOR 2 BOARD SEATS OUT OF 10

We are the largest shareholder of the Company with approximately 17.3% ownership. As such, we have one goal: to maximize the long-term value of Cracker Barrel for the benefit of all shareholders. We are seeking two Board seats and we believe bring the following attributes: (i) properly aligned financial incentives as a result of our 17.3% stake, (ii) relevant and deep industry experience, (iii) experience in engineering an operational turnaround, (iv) a history of generating shareholder value at Biglari Holdings, and (v) contribution of innovative, divergent views to board discussions.

We believe that some positive changes implemented by the Company would not have occurred without our involvement, another reason why we should be on the Board. For instance, the Company has taken several positive steps that we advocated in our letter of November 14, 2011: (i) separating the CEO/Chairman roles, (ii) appointing a new independent Chairman, (iii) pursuing retail royalties through licensing, (iv) amending the credit agreement to allow for greater stock repurchases, (v) increasing transparency through the segregation of retail/restaurant data, (vi) raising the bonus eligibility target, and (vii) returning cash to shareholders. (It should be noted that the Company initially rejected our ideas but ultimately accepted them.)

Notwithstanding the aforementioned, we are convinced that significant value has not been realized through the closing of the productivity gap in operating income per store. We believe generating positive, profitable customer traffic would be a precursor to achieving significant increases in operating income on a per store basis, an impetus which in our view would yield an upward surge in Cracker Barrel's stock price, as detailed further below. Thus, our agenda is clear: We are seeking two Board seats to advance the discussion on how best to create value through operational improvement. And we would benefit in lock-step with all other shareholders.

We hold a basic belief that over time a company's stock price and per-share intrinsic value will converge. In the short run, the two can diverge. The implication is that a company's increase in stock price is not the same as creating economic value. With that framework we remain concerned about the underlying performance of Cracker Barrel. In fiscal 2012 (excluding the impact of the 53rd week) Cracker Barrel increased its operating income per diluted share by 9.5% from $7.07 to $7.74, but its market price moved up by over 40% in fiscal 2012. Clearly, the Company's stock outperformed its underlying business. We believe this divergence cannot continue because, in our view, it would be mathematically unattainable for a company's stock to outperform its underlying business continuously. Over the past year, we believe many factors positively changed the market's valuation of Cracker Barrel, including our presence. Regardless of our opinions concerning these reasons, what is most important is to know that the Company's earnings will, in our view, ultimately drive stock performance. Because we are long-term investors, we would benefit in tandem with the business performance of the Company, rather than from volatility in stock price. Therefore, we are vigorously interested in adding to the fundamental value of Cracker Barrel. Thus, this proxy contest is centered not on financial engineering but on the finer points of the operations, with a focus on building long-term value for all shareholders.

Time Allows for the Facts to Emerge; We Measure Them Against Predictions

On September 13, 2011 CEO Sandra Cochran said, "Our major priorities for 2012 are focused on increasing customer traffic, growing retail sales as a percent of total sales, and controlling costs." Unfortunately, Ms. Cochran failed to grow retail sales as a percent of total sales, and much more important, fiscal 2012 marked the eighth straight year of overall decline in customer traffic.

Based on our experience, the most significant lever to increase the value of the Company is by growing customer traffic profitably. Nonetheless, new stores have been opened, shrouding the decrease in unit profit because overall profits are maintained through new openings. This lackluster operating performance is substantial because the power of accumulating more customers through the existing stores rather than through new stores is evident by the following: In fiscal 1998, Cracker Barrel, under its late founder Danny Evins, achieved operating income of $164.9 million with 357 stores, or $462,000 of operating income per store. For fiscal 2012 (excluding the impact of the 53rd week) Cracker Barrel produced operating income of $181.3 million with 616 stores, or $294,000 of operating income per store. By simply closing the productivity gap — realizing the additional $168,000 of operating income per store that the Company was able to achieve in fiscal 1998 — Cracker Barrel's 616 stores would have earned an additional $103.5 million in operating income. We estimate the market would value the increase in profit at over $1 billion based upon the Company's current earnings multiple. What we have quantified is the impact of improving operations, which we believe is the uttermost mechanism to attain maximal intrinsic value. We are restaurant-industry specialists, and we have vast experience in analyzing, investing, owning, and running companies. We are confident that we can contribute positively, even foster discussions, in the boardroom. We have long asserted that Cracker Barrel requires keen leadership on the Board that possesses substantial ownership and industry experience to help stimulate the value of the business through fundamental improvement in customer traffic and per-store operating income.

Below is a sequence of events and communications that we believe sheds light on our credibility as well the Board's.

In the November 14, 2011 letter, Mr. Biglari wrote about pursuing the following initiative: "The retail business of Cracker Barrel should not be restricted to its company-operated stores; rather, selected products could be distributed through other retailers. To reach more consumers in an effective, profitable way is to license Cracker Barrel products to third parties to generate retail royalties. The Cracker Barrel brand can reach more consumers through supermarkets, which most American households must frequent, whereas not all of them will enter a Cracker Barrel store in the coming year. Licensing will aid in making the brand ubiquitous and top of mind. We favor noncapital intensive strategies that leverage the Cracker Barrel brand to generate high-return, annuity-like cash flow."

On November 29, 2011, the leadership of Cracker Barrel wrote, "While…licensing of retail and food products sound[s] exotic, they won't produce the immediate 'return on effort…'" Despite the fact that our licensing idea was dismissed as "exotic" and "won't produce the immediate 'return on effort,'" on April 26, 2012 management wrote, "Our intent is to sell Cracker Barrel Old Country Store, Inc. food products in grocery stores." The leadership further commented, "We're working to bring branded products similar to what we are featuring in-store into the grocery store … We see the near-term benefit of doing this is generating incremental impression to drive awareness back into our stores and over time obviously opening up an additional income stream."

We have long believed that licensing will be accretive to the value of the Company. It appears that the Board now agrees. Additionally, we believe licensing is just one example that demonstrates our credibility versus the Board's. The Company rejected our ideas outright, yet through its own actions displayed how we have added value by ultimately adopting our ideas.[1] Shareholders should grasp how time has allowed actions to clarify the reality behind the rhetoric.

We also urge shareholders not to be misled by the Company's continuing rhetoric that our Nominees would be conflicted as Board members. In fact, on September 6, 2012, the reason the Board cited for not appointing our Nominees is "due to concerns about potential conflicts of interest and legal issues given your roles with Steak 'n Shake…" In our mind, these vague statements are baseless, intended to mislead shareholders. We believe there is no legal or factual basis to Cracker Barrel's claims on any existing competition between Cracker Barrel and Steak n Shake and that Cracker Barrel's definition of competition is extremely wide, arbitrary, and unsupported by any court of competent jurisdiction. In their initial in-person meeting on June 23, 2011, Mr. Biglari specifically and pointedly asked Chairman Woodhouse if he were concerned that Steak n Shake and Cracker Barrel were direct competitors; Messrs. Biglari and Cooley both clearly recall that Mr. Woodhouse agreed they were not.

The two restaurant companies are differing concepts in many important ways. Steak n Shake is a fast-food premium burger establishment whose primary offerings of burgers, fries, drinks/shakes make up nearly 80% of its revenue, with a high percentage ordered via a drive thru. National publications such as QSR magazine place Steak n Shake in its burger/sandwich category whereas Cracker Barrel does not even appear in the magazine because it is not a quick service restaurant. We are categorized as a QSR/limited service restaurant by Crest/NPD, Restaurant Trends, and Technomics. Our average check is in line with QSR companies; those in the family dining category have average checks that exceed Steak n Shake by approximately 50%. Our menu offerings and daypart mix have little correlation to others that are put into the family dining category such as Cracker Barrel, IHOP, Denny's, Perkins, Bob Evans, among others.

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1 As noted above, the Company has taken several positive steps that we advocated in our letter of November 14, 2011, despite having initially rejected the ideas, including: (i) separating the CEO/Chairman roles, (ii) appointing a new independent Chairman, (iii) pursuing retail royalties through licensing, (iv) amending the credit agreement to allow for greater stock repurchases, (v) increasing transparency through the segregation of retail/restaurant data, (vi) raising the bonus eligibility target, and (vii) returning cash to shareholders.

Shareholders should also be aware that Biglari Holdings has an equity investment in Cracker Barrel that is comparable to its equity investment in Steak n Shake. Thus we seek to grow the value of all our major holdings — both controlling interest (i.e., Steak n Shake) and significant minority interest (i.e., Cracker Barrel) — and we have no financial incentive to benefit one at the expense of another.

Separately, we believe the Board is attempting to appear reasonable by citing an “offer” it has presented to us. But we were not offered two Board seats as explained herein. We urge shareholders to look beneath the headline and understand what the so-called “offer” entails. Shareholders should observe that the Board did not offer two Board seats; it proposed that we submit names of individuals that the Board would consider but could reject. After we met with the Board and management, we have repeated that the Board should add members who have a significant stake in the Company’s stock as well as relevant industry experience. In turn, the Board made a proposal to us that is diametrically, absolutely opposed to our position. The logical deduction from the Board’s proposal is that we would have to nominate two people to the Board who have (1) no relevant restaurant experience and (2) no significant ownership in Cracker Barrel’s stock. Only then the Board will determine if these individuals are qualified and acceptable. Because our goal is to create value for all shareholders, we do not believe that shareholders would be well served for us to play the role of a professional search firm to identify individuals without relevant restaurant experience and then attempt to place them on the Board. In sum, we urge shareholders to ignore the Board’s rhetoric on its proposal, which in our minds was made solely to give the appearance of reasonableness.

In the final analysis, it is clear to us that the Board is trying to divert attention by focusing on issues that in our view are nonexistent. We were hopeful that more than two of the new Board members would have taken time to meet with us and would have departed from their predecessors’ positions, thereby avoiding an unnecessary proxy contest. Nonetheless, we believe we have presented shareholders with relevant facts. Therefore, we urge shareholders to dismiss what we clearly believe to be the Board’s fruitless, misleading claims.

Despite all of the Board’s rhetoric in the proxy contest, we are committed to working constructively with the other members of the Board. We have a significant financial incentive to add value. Your vote to elect our Nominees will send a compelling, convincing message to the Company that Cracker Barrel shareholders desire Board members with significant ownership interests, who possess substantial restaurant, leadership, and financial experience, and who are focused on gaining the utmost value for all shareholders. We strongly believe that the value of the Company would be enhanced by our participating on the Board. We urge you to vote only the GOLD proxy card.

Operations support	
	6,062
	6,506
Research and development	
	1,083
	957
Selling, general and administrative (note 5)	
	5,576
	5,542
Depreciation and amortization	
	18,963
	20,131
Asset impairments and other charges	

	325	1,829
Total other operating expenses	32,009	34,965
Loss from operations	(3,537)	(6,846)

Interest expense	(3,353)	(3,606)
Other income, net	170	482
Loss before income taxes	(6,720)	(9,970)

Income tax expense	(88)	(43)
Net loss	(6,808)	(10,013)

Dividends on mandatorily redeemable preferred stock	(2,262)	(2,054)
Net loss attributable to common stockholders	$ (9,070)	$ (12,067)

Basic and diluted net loss per common share (note 2)	$ (0.29)	$ (0.39)
Basic and diluted weighted average number of common shares outstanding	30,858	30,892

See accompanying notes to condensed consolidated financial statements.

ON COMMAND CORPORATION

(An Indirect Consolidated Subsidiary of Liberty Media Corporation)

Condensed Consolidated Statements of Comprehensive Loss

(unaudited)

	Three Months Ended March 31,	
	2003	**2002**
	(amounts in thousands)	
Net loss	$ (6,808)	$ (10,013)
Foreign currency translation adjustment, net of tax	2,055	(71)
Comprehensive loss	$ (4,753)	$ (10,084)

See accompanying notes to condensed consolidated financial statements.

ON COMMAND CORPORATION

(An Indirect Consolidated Subsidiary of Liberty Media Corporation)

Condensed Consolidated Statement of Stockholders Deficit

Three Months Ended March 31, 2003

(unaudited)

	Preferred stock	Common stock	Additional paid-in Capital	Accumulated other comprehensive loss	Accumulated deficit	Treasury stock	Note receivable from stockholder	Total stockholders deficit
				(amounts in thousands)				
Balance at December 31, 2002	$	$ 310	$ 299,398	$ (4,533)	$ (285,777)	$ (1,344)	$ (24,887)	$ (16,833)
Net loss					(6,808)			(6,808)
Other comprehensive income				2,055				2,055
Interest on stockholder note (note 5)			430				(430)	
Dividends on mandatorily redeemable preferred stock			(2,262)					(2,262)
Balance at March 31, 2003	$	$ 310	$ 297,566	$ (2,478)	$ (292,585)	$ (1,344)	$ (25,317)	$ (23,848)

See accompanying notes to condensed consolidated financial statements.

ON COMMAND CORPORATION

(An Indirect Consolidated Subsidiary of Liberty Media Corporation)

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
	(amounts in thousands) (note 3)	
Cash flows from operating activities:		
Net loss	$ (6,808)	$ (10,013)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	18,963	20,131
Payments of restructuring costs	(273)	(480)
Asset impairments and other charges	325	1,829
Other non-cash items	287	196
Changes in assets and liabilities:		
Accounts receivable	3,137	(2,062)
Other assets	521	630
Accounts payable	(6,431)	(527)
Accounts payable to parent	(833)	(37)
Accrued compensation	(869)	246
Sales, use and property tax liabilities	81	(362)
Other accrued liabilities	(762)	818
Net cash provided by operating activities	7,338	10,369
Cash flows from investing activities:		
Capital expenditures	(11,998)	(12,440)
Cost investments		(1,716)
Net cash used in investing activities	(11,998)	(14,156)
Cash flows from financing activities:		
Borrowings of debt	4,000	7,000
Repayments of debt	(251)	(270)
Payment of deferred financing costs	(550)	
Proceeds from issuance of common and preferred stock		31
Net cash provided by financing activities	3,199	6,761
Effect of exchange rate changes on cash	(4)	(29)

Net increase (decrease) in cash and cash equivalents		(1,465)		2,945
Cash and cash equivalents, beginning of period		4,501		2,869
Cash and cash equivalents, end of period	$	3,036	$	5,814

See accompanying notes to condensed consolidated financial statements.

ON COMMAND CORPORATION

(An Indirect Consolidated Subsidiary of Liberty Media Corporation)

Notes to Condensed Consolidated Financial Statements

March 31, 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 March 31, 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 March 31, 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 March 31, 2003, as well as the results of its operations for the three months ended March 31, 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) Earnings (Loss) Per Common Share

The loss per common share for the three months ended March 31, 2003 and 2002 is based on 30,858,000 and 30,892,000 weighted average shares outstanding during the respective periods. Potential common shares were not included in the computation of diluted earnings per share because their inclusion would be anti-dilutive. At March 31, 2003 and 2002, the number of potential dilutive common shares was approximately 19,966,000 and 20,933,000, 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.

(3) Supplemental Disclosures to Consolidated Statements of Cash Flows

Cash paid for interest was $3,209,000 and $2,848,000 during the three months ended March 31, 2003 and 2002, respectively. Cash paid for income taxes was not significant during these periods.

(4) Debt

Debt is summarized as follows (amounts in thousands):

	March 31, 2003	**December 31, 2002**
Revolving Credit Facility(a)	$ 265,633	$ 261,633
Capital lease obligations	895	1,146
	266,528	262,779
Less current portion	(833)	(833)
	$ 265,695	$ 261,946

(a) The Company s revolving credit facility, as amended, (the Revolving Credit Facility) provided for aggregate borrowings of $275,000,000 at March 31, 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 March 31, 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 1.10% to 2.75% depending on certain operating ratios of the Company (3.82% effective borrowing rate at March 31, 2003). 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 agreements, 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 March 31, 2003. 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. Accordingly, the maximum leverage ratio permitted under the Revolving Credit Facility at March 31, 2003 was 4.25, and the Company s actual leverage ratio was 4.00 as of such date. On April 17, 2003, the Company and its bank lenders executed an Amended and Restated Credit Agreement. The closing of the Amended and Restated Credit Agreement is contingent upon the contribution of $40,000,000 by Liberty to the Company to be used to repay principal due, and permanently reduce lender commitments, pursuant to the Amended and Restated Credit Agreement. However, Liberty has no obligation to make any contribution to the Company, and there can be no assurance that any such contribution will be made. The terms of any potential Liberty contribution (including the securities or other consideration to be received by Liberty in exchange for such contribution) have not yet been agreed upon. 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.

Although the Company is in compliance with the leverage ratio covenant of its existing Revolving Credit Facility at March 31, 2003, the Company believes that it will be out of compliance with such covenant at June 30, 2003 if the closing of the Amended and Restated Credit Agreement does not occur by that date. If the Amended and Restated Credit Agreement has not closed by June 30, 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 if 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 closing of the Amended and Restated Credit Agreement does not occur 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 close. In addition, if the Amended and Restated Credit Agreement does not close, 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.

(5) 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 aggregated $37,000 for each of the three month periods ended March 31, 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 ($1,191,000 at March 31, 2003) are non-interest bearing.

In 2002, On Command entered into a short-term agreement with Ascent Media Group, Inc., a consolidated subsidiary of Liberty, (Ascent Media) pursuant to which Ascent Media supplied On Command with uplink and satellite transport services at a cost of $180,000 through March 31, 2003. On March 24, 2003, the parties executed a Content Preparation and Distribution Services Agreement that will provide for uplink and satellite transport services for a monthly fee of $36,000, subject to adjustment, for a period of five years, beginning 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. On Command has also entered into an agreement dated April 1, 2003 with a wholly-owned subsidiary of Ascent Media for the installation by such subsidiary of satellite equipment at On Command s downlink sites at hotels for a fee of $500 per installation completed.

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.

(6) Significant Customers

During the three months ended March 31, 2003, 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 32%, 15%, 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 three months ended March 31, 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 definitive master agreements 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 March 31, 2003, On Command provided entertainment services to approximately 166,000 rooms that were owned or managed by Marriott, and approximately 94,000 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, 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. However, 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 hotels will choose to renew. At March 31, 2003, the Company provided service to approximately 121,000 rooms in 523 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 March 31, 2003, the Company s contracts with 75 of the aforementioned 523 hotels (19,000 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 448 Hilton hotels (102,000 rooms) expire at various dates through 2010, with 53% of those rooms expiring by 2005. Since January 2002, the Company has entered into new contracts, or renewed existing contracts, with respect to 8,400 rooms that were franchised by Hilton, and 2,600 rooms that were managed by Hilton. The net room revenue derived from hotels that were owned, managed, or franchised by Hilton decreased 17% during the three months ended March 31, 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 Six Continents, 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 March 31, 2003, the Company provided entertainment services to approximately 176,000 rooms in hotels that are owned, managed or franchised by Starwood or Six Continents. Agreements with respect to approximately 51% of such Starwood and Six Continents rooms have already expired, or will expire by December 31, 2004. At March 31, 2003, approximately 38,000 or 60% 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. 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.

(7) Commitments and Contingencies

In connection with a first quarter 2001 acquisition of a 7.5% interest in e-ROOM CORPORATION (e-ROOM) and the settlement of certain litigation, 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 Company s consolidated statements of operations for the year ended December 31, 2002. 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.

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 HDN 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 is reviewing 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.

(8) 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 123) established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by Statement 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 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 123 to stock-based employee compensation (amounts in thousands except per share amounts).

	Three months ended March 31,			
	2003		2002	
Net loss, as reported	$	(6,808)	$	(10,013)
Stock compensation expense determined under fair value method, net of taxes		(1,204)		(1,346)
Pro forma net loss	$	(8,012)	$	(11,359)
Pro forma net loss applicable to common shareholders	$	(10,274)	$	(13,413)
Loss per share:				
Basic and diluted - as reported	$	(0.29)	$	(0.39)
Basic and diluted - pro forma	$	(0.33)	$	(0.43)

(9) Subsequent Events

On April 2, 2003, the Company announced that it 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 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 overture by 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.

Management s Discussion And Analysis Of Financial Condition And Results Of Operations

General

The following discussion and analysis provides information concerning the financial condition and results of operations of the Company and should be read in conjunction with the accompanying condensed consolidated financial statements of the Company, as well as the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance, or achievements of On Command, or industry results, to differ materially from future results, performance, or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among others:

General economic and business conditions, and trends in the travel and entertainment industries;

Trends in hotel occupancy rates and business and leisure travel patterns, including the potential impacts that wars, actual or threatened terrorist attacks and national security responses thereto, contagious diseases such as severe acute respiratory syndrome, or other events might have on such occupancy rates and travel patterns;

Uncertainties inherent in the Company s efforts to renew or enter into agreements on acceptable terms with its significant hotel chain customers and their owned, managed and franchised hotels;

The Company s ability to access quality movies, programming networks and other content on acceptable terms;

The regulatory and competitive environment of the industry in which On Command operates;

The potential impact that any negative publicity, lawsuits, or boycotts by opponents of mature-themed programming content distributed by the Company could have on the willingness of hotel industry participants to deliver such content to guests;

The potential for increased government regulation and enforcement actions, and the potential for changes in laws that would restrict or otherwise inhibit the Company s ability to make mature-themed programming content available over its video systems;

Uncertainties inherent in new business strategies such as the Company s recent efforts to expand its target market to include smaller hotels;

Competitive threats posed by rapid technological changes;

The development, provision and marketing of new platforms and services, and customer acceptance, usage rates, and profitability of such platforms and services;

Uncertainties inherent in the Company s efforts to improve future operating results by increasing revenue and decreasing costs;

Uncertainties inherent in the Company s efforts to effectively manage capital expenditures;

Uncertainties inherent in the Company s ability to execute planned upgrades of its video systems, including uncertainties associated with operational, economic and other factors;

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

Availability of qualified personnel;

Competitor responses to On Command s products and services, and the overall market acceptance of such products and services;

Uncertainties inherent in the ability of On Command to satisfy the closing conditions of the Amended and Restated Credit Agreement (including the required $40,000,000 equity contribution from Liberty) on a timely basis and, if not satisfied, the ability of On Command to restructure or refinance the Revolving Credit Facility; and

Other factors discussed in this Report.

These forward-looking statements (and such risks, uncertainties and other factors) speak only as of the date of this Report, and On Command expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in On Command s expectations with regard thereto, or any other changes in events, conditions, or circumstances on which any such statement is based.

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 during the three months ended March 31, 2003 and 2002 was $56,720,000 and $57,383,000, respectively.

Net room revenue increased $500,000 or less than 1% during the three months ended March 31, 2003, as compared to the corresponding prior year period. The increase in net room revenue during the 2003 period 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 $1,000,000 increase in the aggregate revenue derived from short subject, digital music and television-based Internet products; and (iv) a $715,000 increase in free-to-guest programming revenue. 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 certain pay-per-view products, (ii) a decrease in occupancy rates (as further discussed below), and (iii) a reduction in the average number of rooms served by the Company. The 4.4% decline in the average number of rooms served by the Company during the 2003 period is attributable to (i) the 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.

Overall hotel occupancy rates, as reported by Smith Travel Research, declined 1.1% during the three months ended March 31, 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 1.0% 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 three months ended March 31, 2003, hotels owned, managed or franchised by Marriott, Hilton, Six Continents, Hyatt, and Starwood accounted for 32%, 15%, 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 three months ended March 31, 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 relationships with its significant customers, see note 6 to the accompanying condensed consolidated financial statements.

System and equipment sales and other revenue decreased $1,163,000 or 37.2% during the three months ended March 31, 2003, as compared to the corresponding prior year period. Such decrease is primarily attributable to the net effect of (i) a $674,000 decrease in sales of the Company s music systems; and (ii) a $407,000 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 third quarter of 2003. 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 due to lower sales volumes and lower per unit sales prices.

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 decreased $498,000 or 1.8% during the three months ended March 31, 2003, as compared to the corresponding prior year period. Such decrease represents the net effect of individually insignificant changes in the components of this line item. 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 50.0% and 51.4% of total net room revenue during the 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.

System, equipment and other costs decreased $518,000 or 37.5% during 2003, as compared to 2002. The majority of such decrease is attributable to lower costs as a result of lower system and equipment sales, as described above.

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 $444,000 or 6.8% during the three months ended March 31, 2003, as compared to the corresponding prior year period. Such decrease represents the net effect of individually insignificant changes in the components of this line item.

Research and Development

Research and development expense increased $126,000 or 13.2% during the three months ended March 31, 2003, as compared to the corresponding prior year period. The increase is primarily attributable to contract labor associated with the launch of the Company s satellite distribution system.

Selling, General and Administrative

Selling, general and administrative expense increased $34,000 or less than 1% during the three months ended March 31, 2003, as compared to the corresponding prior year period. Such increase is attributable to the net effect of (i) higher labor costs, (ii) lower bad debt expense, and (iii) various other individually insignificant changes in the components of this line item. The decrease in bad debt expense is largely attributable to the collection of a receivable that had been fully reserved in a prior period. The percentage of total net revenue that is represented by selling, general and administrative expense was 9.8% and 9.7% during the 2003 and 2002 periods, respectively.

Depreciation and Amortization

Depreciation and amortization expense decreased $1,168,000 or 5.8% during the three months ended March 31, 2003, as compared to the corresponding prior year period. Such decrease represents the net effect of reductions to the Company s depreciable asset base that were only partially offset by increases attributable to capital expenditures. The decrease in the Company s depreciable asset base is attributable to (i) assets becoming fully depreciated, and (ii) asset dispositions.

Asset Impairment and Other Charges

The Company recorded impairment charges of $325,000 and $1,829,000 during the three months ended March 31, 2003 and 2002, respectively. The 2002 amount includes a loss of $1,411,000 relating to a transaction in which certain equipment was transferred to STSN, Inc. (STSN). The Company also recorded other charges aggregating $325,000 and $418,000 during the 2003 and 2002 periods, 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.

Interest Expense

Interest expense decreased $253,000 or 7.0% during the three months ended March 31, 2003, as compared to the corresponding prior year period. 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.

Income Taxes

The Company s income tax expense of $88,000 and $43,000 during the three months ended March 31, 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 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 March 31, 2003 and 2002, respectively.

Net Loss

As a result of the factors described above, the Company s net loss decreased from $10,013,000 during the 2002 period to $6,808,000 during the 2003 period. 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. 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 three months ended March 31, 2003, the Company used $7,338,000 of cash provided by operating activities, $3,199,000 of cash provided by financing activities and a $1,465,000 decrease in cash and cash equivalents to fund the $11,998,000 used by its investing activities. For additional information, see the accompanying condensed consolidated statements of cash flows.

At March 31, 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 March 31, 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 1.10% to 2.75% depending on certain operating ratios of the Company (3.82% effective borrowing rate at March 31, 2003). 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 March 31, 2003. 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. Accordingly, the maximum leverage ratio permitted under the Revolving Credit Facility at March 31, 2003 was 4.25, and the Company s actual leverage ratio was 4.00 as of such date. On April 17, 2003, the Company and its bank lenders executed an Amended and Restated Credit Agreement. The closing of the Amended and Restated Credit Agreement is contingent upon the contribution of $40,000,000 by Liberty to the Company to be used to repay principal due, and permanently reduce lender commitments, pursuant to the Amended and Restated Credit Agreement. However, Liberty has no obligation to make any contribution to the Company, and there can be no assurance that any such contribution will be made. The terms of any potential Liberty contribution (including the securities or other consideration to be received by Liberty in exchange for such contribution) have not yet been agreed upon. 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.

Although the Company is in compliance with the leverage ratio covenant of its existing Revolving Credit Facility at March 31, 2003, the Company believes that it will be out of compliance with such covenant at June 30, 2003 if the closing of the Amended and Restated Credit Agreement does not occur by that date. If the Amended and Restated Credit Agreement has not closed by June 30, 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 if 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 closing of the Amended and Restated Credit Agreement does not occur 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 close. In addition, if the Amended and Restated Credit Agreement does not close, 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 it 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.

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 $15,168,000 at March 31, 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 e-ROOM and the settlement of certain litigation, 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 that had been issued to e-ROOM 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. 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 Company s consolidated statements of operations for the year ended December 31, 2002. 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.

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 equity contribution from Liberty in order to satisfy one of the closing conditions 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 close 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.

Item 3. 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 March 31, 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 3.82% at March 31, 2003. Assuming no increase or decrease in the amount outstanding, a hypothetical 1% increase (or decrease) in interest rates at March 31, 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.

Item 4. Controls and Procedures

The Company s Chief Executive Officer and Chief Financial Officer (the Executives) conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as defined in Exchange Act Rule 13d-14(c), as of a date within 90 days prior to the filing of this quarterly report on Form 10-Q. Based on this evaluation, the Executives concluded that the Company s disclosure controls and procedures were effective as of the date of that evaluation. There have been no significant changes in the Company s disclosure controls and procedures or in other factors that could significantly affect these controls subsequent to the date on which the Executives completed their evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

There are no material changes to pending legal proceedings to which the Company is a party or to which any of its property is subject, except as follows:

Shareholder Litigation On April 2, 2003, the Company announced that it had received an expression of interest from Liberty regarding the possibility of acquiring all the issued and outstanding shares of On Command not already owned by affiliates of Liberty. As proposed by Liberty, On Command stockholders would receive 0.0787 of a share of Liberty Media Corporation Series A common stock for each share of On Command common stock held. On April 11, 2003, one purported class action styled *Raymond Gavilan v. On Command Corporation, et al.*, C.A. No. 20252 was filed on behalf of the stockholders of the Company other than Liberty and the defendants, in the Court of Chancery in New Castle County, Delaware (the Action). The Action names as defendants in addition to Liberty and the Company, current directors Kenneth G. Carroll, William R. Fitzgerald, Paul A. Gould, Mark K. Hammond, Gary S. Howard, Christopher Sophinos, and J. David Wargo, as well as Peter Kern, a former director. Certain of the Company s officers were also named as defendants. The Action asserts, among other things, that the offer made by Liberty was the product of unfair dealing by Liberty and its representatives on the Company s Board of Directors and does not offer the public stockholders of the Company fair value for their shares. The plaintiff seeks injunctive relief to prevent consummation of the offer made by Liberty, and if the transaction with Liberty is consummated, an order rescinding the transaction or rescissory damages. The Company believes that the claims are without merit.

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits

10.1 Content Preparation and Distribution Services Agreement by and between Ascent Media Group, Inc. and On Command Video Corporation.

99.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

(B) Reports on Form 8-K filed during the quarter ended March 31, 2003:

Date Filed	Items Reported	Financial Statements Filed
February 10, 2003	Item 5	None

(C) SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ON COMMAND CORPORATION

Date: May 15, 2003	By:	/s/ Bernard G. Dvorak Bernard G. Dvorak Senior Vice President, Chief Financial Officer and Treasurer (Principal Accounting and Financial Officer)

CERTIFICATION

I, Christopher Sophinos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of On Command Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Christopher Sophinos
Christopher Sophinos
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Bernard G. Dvorak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of On Command Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Bernard G. Dvorak

Bernard G. Dvorak
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibits

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