CROWN MEDIA HOLDINGS INC
Form 10-Q
November 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 000-30700

Crown Media Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**84-1524410** (I.R.S. Employer Identification No.)

12700 Ventura Boulevard,

Suite 200

Studio City, California 91604

(Address of principal executive offices) (Zip Code)

(818) 755-2400

(Registrant s telephone number, including area code)

(Former name, former address, and former fiscal year,

if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer (do not check if a smaller reporting	Smaller reporting company o

company)o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of October 28, 2015, the number of shares of Class A Common Stock, $0.01 par value per share, outstanding was 359,675,936.

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In this Quarterly Report on Form 10-Q the terms Crown Media Holdings, the Company, we, us and our refer to Crown Media Holdings, Inc. and, unless the context requires otherwise, subsidiaries of Crown Media Holdings that operate or have operated our businesses, including Crown Media United States, LLC (Crown Media United States).

The name Hallmark and other product or service names are trademarks or registered trademarks of entities owned by Hallmark Cards, Incorporated (Hallmark Cards).

Certain Terms

Certain terms used throughout this Annual Report on Form 10-Q are defined below.

2011 Credit Agreement	Our Credit Agreement, dated as of July 14, 2011, with the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, which provides for the 2011 Term Loan and the 2011 Revolver, as amended by Amendment No. 1.
2011 Refinancing	The July 14, 2011 transaction pursuant to which we issued the 2011 Term Loan and the Notes to repay certain obligations to Hallmark Cards.
2011 Revolver	The five year $30.0 million senior secured super-priority revolving credit facility issued pursuant to the 2011 Credit Agreement.
2011 Term Loan	The $210.0 million senior secured term loan issued pursuant to the 2011 Credit Agreement.
2015 Credit Agreement	Our 2015 Credit Agreement, dated as of June 25, 2015, with the lenders party thereto and Wells Fargo Bank, National Association, as Administrative Agent, which provides for the 2015 Term Loan and the 2015 Revolver.
2015 Refinancing	The June 25, 2015 transaction pursuant to which we issued the 2015 Term Loan and the 2015 Revolver, certain proceeds of which we used to repay the 2011 Term Loan and the Notes.
2015 Revolver	The five year $100 million senior secured revolving credit facility issued pursuant to the 2015 Credit Agreement.
2015 Term Loan	The five year $325 million senior secured term loan issued pursuant to the 2015 Credit Agreement.
Amendment No. 1	Amendment No. 1 to our 2011 Credit Agreement as executed March 29, 2013.
ADUs	Audience Deficiency Units, or units of advertising inventory that are made available to advertisers as fulfillment for past advertisements purchased by the advertiser that did not deliver the guaranteed viewership ratings. The liability for these units is called the audience deficiency reserve.
Common Stock	Our Class A common stock, unless the context requires otherwise.
CPM	Cost per thousand or advertising rate per thousand viewers.
GAAP	Generally accepted accounting principles in the United States.

Hallmark Cards or Hallmark	Hallmark Cards, Incorporated, our ultimate parent.
Hallmark Channel	A 24-hour cable television destination for family-friendly programming and a leader in the production of original movies.
Hallmark Movies and Mysteries	A 24-hour cable television destination dedicated to offering viewers a collection of movies and long form programming appropriate for the entire family, featuring a mix of original movies and series of the mystery genre, in addition to classic theatrical films, and Hallmark Hall of Fame movie presentations.

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HCC	H C Crown, LLC, formerly H C Crown Corp., a subsidiary of Hallmark Cards and Crown Media Holdings immediate parent.
Indenture	The Indenture, dated as of July 14, 2011, among us, our subsidiaries party thereto, and The Bank of New York Mellon Trust Company, N.A., as Trustee, as supplemented by a Supplemental Indenture dated as of June 10, 2014.
Network or Networks	Hallmark Channel or Hallmark Movies and Mysteries, individually or collectively, as the context requires.
Nielsen	Nielsen Media Research or The Nielsen Company, an information and measurement company that provides television ratings, media measurements and other marketing and consumer information.
Notes	$300.0 million of 10.5% senior unsecured notes due in 2019 issued by us pursuant to the terms and conditions of the Indenture.
Scatter Market	The period after the close of the Upfront Season during which advertising is sold in close proximity to its air date.
Subscriber	A household that receives, on a full- or part-time basis, a Network as part of a program package or a program tier of a distributor.
Upfront Season	The period of time (usually during the month of May) when advertisers commit to a certain volume of advertising for the fourth quarter of the same year and the first three quarters of the following year.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (Unaudited)***

CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and number of shares)

	As of December 31, 2014	As of September 30, 2015
ASSETS		
Cash and cash equivalents	$ 60,888	$ 70,542
Accounts receivable, less allowance for doubtful accounts of $265 and $732, respectively	118,277	103,682
Programming rights	85,950	83,475
Prepaid programming rights	33,844	36,784
Deferred tax assets, net	46,900	46,900
Prepaid and other assets	3,459	4,048
Total current assets	349,318	345,431
Long-term receivable		604
Programming rights	221,664	240,168
Prepaid programming rights	5,938	2,961
Property and equipment, net	10,763	8,795
Deferred tax assets, net	147,468	122,211
Debt transaction costs, net	227	849
Prepaid and other assets	5,051	3,961
Goodwill	314,033	314,033
Total assets	$ 1,054,462	$ 1,039,013
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 29,588	$ 25,176
Audience deficiency reserve liability	5,926	6,748
Programming rights payable	66,726	61,543
Payables to Hallmark Cards affiliates	150	212
Interest payable	13,079	1,075
Current maturities of long-term debt	20,000	33,125
Total current liabilities	135,469	127,879
Accrued liabilities	17,629	20,479
Programming rights payable	45,676	34,222
Derivative payable		3,337
Long-term debt, net of current maturities	362,050	314,108
Total liabilities	560,824	500,025
COMMITMENTS AND CONTINGENCIES:		
STOCKHOLDERS EQUITY:		
	3,597	3,597

Class A common stock, $.01 par value; 500,000,000 shares authorized; 359,675,936 shares issued and outstanding as of both December 31, 2014 and September 30, 2015				
Paid-in capital		2,062,818		2,062,818
Accumulated other comprehensive income (loss)				(1,875)
Accumulated deficit		(1,572,777)		(1,525,552)
Total stockholders equity		493,638		538,988
Total liabilities and stockholders equity	$	1,054,462	$	1,039,013

The accompanying notes are an integral part of these unaudited condensed consolidated balance sheets.

CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2015
Revenue:				
Advertising	$ 71,373	$ 83,601	$ 214,855	$ 250,839
Advertising by Hallmark Cards			1,725	1,259
Subscriber fees	20,665	21,869	62,636	63,336
Other revenue	1,289	744	2,139	4,540
Total revenue, net	93,327	106,214	281,355	319,974
Cost of Services:				
Programming costs				
Non-affiliates	36,065	42,673	111,931	117,147
Hallmark Cards affiliates	735	785	2,501	2,480
Other costs of services	4,199	5,730	11,982	15,797
Total cost of services	40,999	49,188	126,414	135,424
Selling, general and administrative expense (exclusive of depreciation and amortization expense shown separately below)	15,543	18,390	47,655	55,017
Marketing expense	1,353	985	6,195	7,637
Depreciation and amortization expense	650	702	1,753	2,022
Income from operations before interest, income tax expense and discontinued operations	34,782	36,949	99,338	119,874
Interest income	91	80	295	326
Interest expense	(10,030)	(4,276)	(30,336)	(22,360)
Loss on extinguishment of debt	(1,180)	(18,581)	(1,180)	(22,478)
Income before income tax expense and discontinued operations	23,663	14,172	68,117	75,362
Income tax expense	(8,766)	(5,471)	(25,220)	(28,093)
Income from continuing operations	14,897	8,701	42,897	47,269
Loss from sale of discontinued operations, net of tax		(44)		(44)
Net income	$ 14,897	$ 8,657	$ 42,897	$ 47,225
Other Comprehensive income (loss):				
Unrealized loss on derivatives, net of tax		(1,875)		(1,875)
Comprehensive income (loss)	$ 14,897	$ 6,782	$ 42,897	$ 45,350
Weighted average number of common shares outstanding, basic and diluted	359,676	359,676	359,676	359,676
Loss from sales of discontinued operations, basic and diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net income per common share, basic and diluted	$ 0.04	$ 0.02	$ 0.12	$ 0.13

The accompanying notes are an integral part of these unaudited condensed consolidated statements of operations and comprehensive income (loss).

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CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 42,897	$ 47,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on extinguishment of debt	1,180	22,478
Loss on sales of discontinued operations		44
Gain on sale of property and equipment		(5)
Depreciation and amortization	119,360	124,806
Provision for allowance for doubtful accounts	123	827
Income tax expense	23,819	26,619
Non-cash compensation	36	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	19,372	13,163
Additions to programming rights	(140,969)	(135,656)
Increase in prepaid and other assets	(9,800)	(1,021)
Increase in accounts payable, accrued and other liabilities	8,150	1,480
Decrease in interest payable	(8,065)	(12,068)
Increase in derivative payable		362
Decrease in programming rights payable	(4,754)	(16,637)
Increase in payables to Hallmark Cards affiliates	10	4
Net cash provided by operating activities	51,359	71,621
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,412)	(1,716)
Proceeds from disposal of property and equipment		18
Net cash used in investing activities	(2,412)	(1,698)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on the 2011 Term Loan	(36,503)	(119,637)
Redemption of the Notes	(8,497)	(271,503)
Premium on redemption of the Notes	(1,019)	(14,254)
Issuance of the 2015 Term Loan		325,000
Issuance of the 2015 Revolver		25,000
Transaction costs incurred for the 2015 Refinancing		(3,808)
Principal payments on capital lease obligations	(974)	(1,067)
Net cash used in financing activities	(46,993)	(60,269)
Net increase in cash and cash equivalents	1,954	9,654
Cash and cash equivalents, beginning of period	63,750	60,888
Cash and cash equivalents, end of period	$ 65,704	$ 70,542
Supplemental disclosure of cash and non-cash activities:		
Interest paid	$ 36,557	$ 32,526
Income taxes paid	$ 1,929	$ 2,365
Capital expenditures included in accounts payable and accrued liabilities	$ 501	$ 1,340
Asset acquired through capital lease obligation	$ 21	$

The accompanying notes are an integral part of these unaudited condensed consolidated statements of cash flows.

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CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2014 and 2015

1. Business and Organization

Crown Media Holdings through its wholly owned subsidiary Crown Media United States, LLC (Crown Media United States), owns and operates pay television networks dedicated to high quality entertainment programming for adults and families in the United States. Majority ownership of the Company is held by Hallmark Cards through its subsidiaries HCC and Hallmark Cards GmbH.

The Company s continuing operations are currently organized into one operating segment, the Networks.

2. Summary of Significant Accounting Policies and Estimates

Interim Financial Statements

In the opinion of management, the accompanying unaudited condensed consolidated balance sheets and related interim unaudited condensed consolidated statements of operations and comprehensive income (loss) and cash flows include all adjustments, consisting of normal recurring items necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes to those statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Crown Media Holdings and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in accordance with GAAP requires the consideration of events or transactions that occur after the balance sheet date but before the financial statements are issued. Depending on the nature of the subsequent event, financial statement recognition or disclosure of the subsequent event may be required.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Such estimates include the collectibility of accounts receivable, the valuation of goodwill, intangible assets and other long-lived assets, the net realizable value of programming rights, the fair value of film assets, legal contingencies, indemnifications, barter transactions, audience deficiency reserve obligations and assumptions used in the calculation of income taxes and related valuation allowance, among others.

All of the estimates that are employed are based on management s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon the Company s assessment of probable loss related to uncollectible accounts receivable. The Company uses a number of factors in determining the allowance, including, among other things, the financial condition of specific customers and collection trends. The Company s bad debt expense was $10,000 and $135,000 for the three months ended September 30, 2014 and 2015, respectively. The Company s bad debt expense was $123,000 and $827,000 for the nine months ended September 30, 2014 and 2015, respectively.

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Barter Transactions

The Company enters into transactions that involve the exchange of its on air advertising spots, in part, for other products and services, such as programming rights. Programming rights and the related deferred advertising revenue that result from such transactions are recognized at the estimated fair value of the advertising spots conveyed when the programming is available for telecast. Barter programming rights are amortized in the same manner as non-barter programming rights and advertising revenue is recognized when delivered. The Company recognized $376,000 and $520,000 in barter advertising revenue during the three months ended September 30, 2014 and 2015, respectively. The Company recognized $1.7 million and $2.1 million in barter advertising revenue during the nine months ended September 30, 2014 and 2015, respectively. The Company recognized $525,000 and $656,000 in barter expense included in programming costs on the unaudited condensed consolidated statements of operations and comprehensive income (loss) during the three months ended September 30, 2014 and 2015, respectively. The Company recognized $1.9 million and $2.2 million in barter expense included in programming costs on the unaudited condensed consolidated statements of operations and comprehensive income (loss) during the nine months ended September 30, 2014 and 2015, respectively.

Film Assets Included in Long-Term Programming Rights

The Company amortizes its film assets using the individual-film-forecast-computation method. The individual-film-forecast-computation method amortizes such assets in the same ratio that current period actual revenue bears to estimated ultimate future revenues.

On a quarterly basis, the Company assesses whether events or circumstances have changed indicating that the fair value of a film is lower than its unamortized cost or carrying value. If the carrying value of any individual film asset exceeds its fair value, the film asset is written-down to its estimated fair value.

The Company reviews its estimates of ultimate future revenues and participation costs as of each reporting date to reflect currently available information. Estimated ultimate future revenues are based on sales plans and other factors, all of which require significant judgment and estimation by management. Differences between amortization expense determined using the new estimates and any amounts previously expensed during that current fiscal year are charged or credited to the statement of operations in the period in which the estimates are revised.

Deferred Revenue

Payments received in advance of being earned are recorded as deferred revenue. Included in accounts payable and accrued liabilities as of December 31, 2014 and September 30, 2015, are $2.9 million and $3.4 million, respectively, of deferred revenue. Further, $5.9 million and $6.7 million, respectively, are included in the long-term portion of accrued liabilities as of December 31, 2014 and September 30, 2015.

Transaction Costs

Transaction costs in the amount of $897,000 related to the 2015 Revolver are being deferred as an asset and presented as debt transaction costs on the accompanying unaudited condensed consolidated balance sheet and are being amortized ratably over the term of the 2015 Revolver. Transaction costs in the amount $2.9 million related to the 2015 Term Loan are presented as a direct deduction of the carrying amount of the 2015 Term Loan on the accompanying unaudited condensed consolidated balance sheet as of September 30, 2015.

The 2015 Term Loan transaction costs are being amortized using the effective interest method. The 2015 Revolver transaction costs are being amortized on a straight line basis over the term.

Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, provides guidance which defines fair value, establishes a framework for measuring fair value and specifies disclosures about fair value measurements. The Company determines fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Company has balance sheet items (the derivative liability and other comprehensive loss) measured at fair value on a recurring basis related to its interest rate swap. Significant balance sheet items which are subject to non-recurring fair value measurements consist of impairment valuations of goodwill, promotion and placement fees, property and equipment, and owned programming and barter advertising revenue and programming.

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Derivative Instrument and Hedging Activities

The Company records derivative financial instruments on the unaudited condensed consolidated balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Changes in fair value of derivative financial instruments that are designated and qualify as cash flow hedges are reflected in other comprehensive earnings. Changes in fair value that are deemed ineffective relative to the hedged risk are recorded in earnings as they occur.

Foreign Currency Translation

Foreign currency monetary items are stated in U.S. dollars, the Company s functional currency, measured at exchange rates at the balance sheet date, with currency translation gains and losses recorded in income. Translation adjustment expense of $84,000 and $94,000 has been recorded both for the three and nine months ended September 30, 2015, respectively. The Company did not have transactions adjustment expense during 2014.

Net Income per Share

Basic net income per share for each period is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding during the period. Diluted net income per share for each period is computed by dividing net income attributable to common stock by the weighted average number of common shares plus potentially dilutive common shares outstanding except whenever any such effect would be antidilutive.

Concentration of Risk

Financial instruments, which potentially subject Crown Media Holdings to a concentration of credit risk, consist primarily of cash, cash equivalents and accounts receivable. Generally, Crown Media Holdings does not require collateral to secure receivables. Crown Media Holdings has no significant off balance sheet financial instruments with risk of accounting losses.

Five and four of the Company s distributors individually accounted for more than 10% of the Company s consolidated subscriber revenue and collectively accounted for 88% and 73% of the Company s consolidated subscriber revenue during the three months ended September 30, 2014 and 2015, respectively. Two of the Company s distributors individually accounted for approximately 15% or more of the Company s consolidated subscribers and collectively accounted for 45% and 42% of the Company s subscribers during each of the three months ended June 30, 2014 and 2015. The loss of one of these distributors could have a significant impact on the Company s operations.

Five of the Company s distributors individually accounted for more than 10% of the Company s consolidated subscriber revenue and collectively accounted for 88% and 85% of the Company s consolidated subscriber revenue during the nine months ended September 30, 2014 and 2015. Two of the Company s distributors individually accounted for approximately 15% or more of the Company s consolidated subscribers and collectively accounted for 45% and 42% of the Company s subscribers during each of the nine months ended September 30, 2014 and 2015. The loss of one of these distributors could have a significant impact on the Company s operations.

Four of the Company s programming content providers individually accounted for more than 10% of the Company s total programming rights payable and collectively accounted for 73% and 63% of the consolidated programming rights payable as of September 30, 2014 and 2015, respectively. The loss of one of these program content providers could have a significant impact on the Company s operations.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This ASU supersedes the revenue recognition requirements in ASC 605 Revenue Recognition and most industry specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company is in the process of assessing the impact of the adoption of accounting standards update ASU No. 2014-09 on its financial position and results of operations.

In January 2015, the FASB issued new accounting rules that remove the concept of extraordinary items from U.S. GAAP. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income

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from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net of tax presentation (and corresponding earnings per share impact) will no longer be allowed. The new rules will be effective for the Company in the first quarter of 2016. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company s financial condition, results of operations or cash flows.

Adoption of Recent Accounting Principle

The Company historically presented debt issuance costs as assets on its unaudited accompanying condensed consolidated balance sheets. In April 2015, the FASB issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance requires retrospective application. In conjunction with the 2015 Refinancing, the Company early adopted this guidance beginning the second quarter ended June 30, 2015 and applied this guidance retrospectively to all prior periods presented in the Company s accompanying condensed consolidated balance sheets.

The reclassification does not impact any prior amounts reported in the statements of operations and comprehensive income (loss) or cash flows. The following table presents the effects of the retrospective application of this change in accounting principle on the Company s accompanying condensed consolidated balance sheet as of December 31, 2014.

	As of December 31, 2014		
	Prior to Adoption of ASU 2015-03	ASU 2015-03 Adjustment (In thousands)	As Adopted
Debt transaction costs, net	$ 7,878	$ (7,651)	$ 227
Total assets	1,062,113	(7,651)	1,054,462
Long term debt, net of current maturities	369,701	(7,651)	362,050
Total liabilities	568,475	(7,651)	560,824
Total liabilities and stockholders equity	1,062,113	(7,651)	1,054,462

3. Programming Rights

Programming rights are comprised of the following:

	As of December 31, 2014	As of September 30, 2015
	(In thousands)	
Programming rights non-affiliates		
Acquired programming		
Licensed for less than 12 years	$ 298,731	$ 283,874
Original programming		
Licensed for less than 12 years	200,760	234,414

Licensed for 12 years or longer		62,585		99,459
Owned		43,271		61,033
Programming rights Hallmark Cards affiliates				
Licensed for less than 12 years		25,694		26,354
Programming rights, at cost		631,041		705,134
Accumulated amortization		(325,046)		(397,751)
Programming rights available for broadcast		305,995		307,383
Owned programming in development		1,619		16,260
Programming rights, net	$	307,614	$	323,643

In the regular course of evaluating the remaining usefulness of its various program rights, the Company may determine that certain rights may be of little future value. In such instances, the Company shortens the estimated remaining life of the asset, often to zero, thereby accelerating amortization of the remaining net book value. During both the three months ended September 30, 2014 and 2015, no such changes in estimates resulted in additional amortization of programming rights. During the nine months ended September 30, 2014 and 2015, such changes in estimates resulted in additional amortization of programming rights of $7,000 and $30,000, respectively.

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At December 31, 2014 and September 30, 2015, $39.8 million and $39.7 million, respectively, of programming rights were included in prepaid programming rights in the accompanying unaudited condensed consolidated balance sheets. The various license periods associated with such amounts had not commenced as of the respective balance sheet dates.

Programming rights payable are comprised of the following:

	As of December 31, 2014	As of September 30, 2015
	(In thousands)	
Programming rights payable non-affiliates		
Acquired programming	$ 88,856	$ 70,148
Original programming	9,923	13,219
Programming rights payable Hallmark Cards affiliates	13,623	12,398
Total programming rights payable	112,402	95,765
Less current maturities	(66,726)	(61,543)
Long-term programming rights payable	$ 45,676	$ 34,222

4. Debt

2015 Credit Facility

On June 25, 2015, the Company entered into the 2015 Credit Agreement. The 2015 Credit Agreement provides for the 2015 Term Loan and the 2015 Revolver. The 2015 Credit Agreement also provides for the issuance of letters of credit and the provision of swingline loans under the 2015 Revolver, subject to a $15.0 million sublimit for letters of credit and a $5.0 million sublimit for swingline loans. The Company used $80.0 million of proceeds from the 2015 Term Loan to repay the 2011 Term Loan. On July 24, 2015, the Company funded the redemption of the Notes using the proceeds from the remaining $245.0 million under the 2015 Term Loan and $25.0 million under the 2015 Revolver along with cash on hand.

The 2015 Credit Agreement provides for the 2015 Term Loan, a five year $325.0 million senior secured term loan, the 2015 Revolver, a five year $100.0 million senior secured revolver, and the issuance of letters of credit and the provision of swingline loans under the 2015 Revolver, subject to a $15.0 million sublimit for letters of credit and a $5.0 million sublimit for swingline loans. The Company s subsidiaries (the Guarantors) have guaranteed the Company s obligations under the 2015 Credit Agreement. The 2015 Credit Agreement is collateralized by a first priority interest in substantially all of the present and future assets of the Company and the Guarantors, other than their interests in the Hallmark trademarks and associated rights.

The Company must elect Eurodollar or base rate loans prior to borrowing. Eurodollar loans will bear interest at the adjusted LIBO rate (with that rate not to be deemed to be below 0.00%), plus an interest margin ranging from 1.50% to 2.25%, depending on the Company s Consolidated Leverage Ratio (as defined in the 2015 Credit Agreement). All base rate loans will bear interest at the alternate base rate (as defined in the 2015 Credit Agreement), plus an interest margin ranging from 0.50% to 1.25%, depending on the Company s Consolidated Leverage Ratio.

Commitment fees are payable on the unused credit commitment at a rate ranging from 0.25% to 0.40%, depending on the Company s Consolidated Leverage Ratio.

The Company is required to make prepayments under the 2015 Term Loan in amounts equal to (1) 50% of excess cash flow, as defined in the 2015 Credit Agreement, of the Company for the six months ending December 31, 2015, and for each year thereafter, which percentage will be reduced to 25% if the Consolidated Leverage Ratio is equal to or less than 3.00 to 1.00 but greater than 2.00 to 1.00, and 0% if the Consolidated Leverage Ratio is equal to or less than 2.00 to 1; (2) 100% of net cash proceeds of dispositions or casualty events if the Company has not invested such proceeds within one year after the occurrence of the disposition or casualty event; and (3) 100% of net cash proceeds from the issuance of indebtedness not otherwise permitted by the 2015 Credit Agreement.

The covenants in the 2015 Credit Agreement limit the ability of the Company and certain of its subsidiaries to, among other things: (1) incur indebtedness; (2) create or permit liens on assets; (3) pay certain dividends or make certain stock repurchases and redemptions and other restricted payments; (4) make certain investments; (5) prepay indebtedness; (6) enter into certain transactions with its affiliates; (7) dispose of assets; (8) merge or consolidate; (9) enter into new unrelated lines of business; and (10) enter into sale and leaseback transactions. The 2015 Credit Agreement also requires compliance by the Company with a Consolidated Leverage Ratio test and a Consolidated Secured Leverage Ratio test (as defined in the 2015 Credit Agreement).

The Company was in compliance with its covenants under the 2015 Credit Agreement as of September 30, 2015.

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The 2015 Term Loan was not in place during the year ended December 31, 2014. At September 30, 2015, the outstanding balance under the 2015 Term Loan, net of unamortized transaction costs of $2.8 million, was $322.2 million. The Company made an interest payment of $422,000 under the 2015 Term Loan during the three and nine months ended September 30, 2015.

Interest expense under the 2015 Term Loan was $1.5 million for the three and nine months ended September 30, 2015. The effective interest rate was approximately 2.33% during the three and nine months ended September 30, 2015. The weighted average nominal interest rate was approximately 2.09% during the three and nine months ended September 30, 2015.

The 2015 Revolver was not in place during the year ended December 31, 2014. Commitment fee expense for the three and nine month periods ended September 30, 2015, was $15,000.

One letter of credit was issued in the amount of $909,000 on June 29, 2015.

2015 Refinancing and Redemption of Notes

In June 2015, the Company repaid $99.6 million of principal under its 2011 Term Loan using cash on hand of $19.6 million and proceeds from the 2015 Term Loan of $80.0 million. In conjunction with this transaction, the Company recorded a charge of $2.7 million for debt issuance costs and $1.2 million original issue discount costs related to the 2011 Term Loan, which resulted in an aggregate pre-tax loss on extinguishment of debt of $3.9 million.

In July 2015, the Company redeemed $271.5 million in principal amount of Notes (representing 100% of the outstanding Notes) for a price of $285.8 million (representing a redemption price of 105.25% of the principal amount, plus accrued and unpaid interest) and recorded a charge for the associated debt issuance costs of approximately $4.3 million, which resulted in an aggregate, pre-tax loss on extinguishment of debt of approximately $18.6 million.

2011 Credit Facility

Pursuant to the 2011 Credit Agreement, the Company had the 2011 Term Loan and the 2011 Revolver. At December 31, 2014, the Company had no outstanding borrowings under the 2011 Revolver.

At December 31, 2014, the outstanding balance under the 2011 Term Loan, net of unamortized transaction costs of $4.3 million, was $115.4 million. The Company made principal payments of $11.5 million under the 2011 Term Loan during the three months ended September 30, 2014. The Company made principal payments of $36.5 million and $119.6 million under the 2011 Term Loan during the nine months ended September 30, 2014 and 2015, respectively.

Interest expense under the 2011 Term Loan was $1.6 million for the three months ended September 30, 2014. The effective interest rate was approximately 5.10% during the three months ended September 30, 2014. The weighted average nominal interest rate was approximately 4.05% during the three months ended September 30, 2014.

Interest expense under the 2011 Term Loan was $5.1 million and $2.7 million for the nine months ended September 30, 2014 and 2015, respectively. The effective interest rate was approximately 5.03% during the nine months ended September 30, 2014. The weighted average nominal interest rate was approximately 4.05% during the nine-month period ended September 30, 2014.

Interest expense under the 2011 Revolver for the three months ended September 30, 2014 was $0. Interest expense under the 2011 Revolver for both the nine months ended September 30, 2014 and 2015, was $0. Under the 2011 Revolver, one letter of credit was outstanding in the amount of $202,000 at December 31, 2014. Commitment fees on the 2011 Revolver were payable on the unused revolving credit commitment at the rate of 0.50% per annum, payable quarterly. Commitment fee expense for the three-month period ended September 30, 2014 was $38,000. Commitment fee expense for the nine-month periods ended September 30, 2014 and 2015, was $113,000 and $89,000, respectively.

The Notes

At December 31, 2014, the outstanding balance under the Notes, net of unamortized transaction costs of $4.8 million, was $266.7 million.

Interest expense under the Notes was $8.0 million and $2.0 million for the three months ended September 30, 2014 and 2015, respectively. After giving effect to the amortization of associated debt issuance costs, the effective interest rate of the Notes was approximately 11.0% during both the three months ended September 30, 2014 and 2015.

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Interest expense under the Notes was $24.1 million and $16.6 million for the nine months ended September 30, 2014 and 2015, respectively. After giving effect to the amortization of associated debt issuance costs, the effective interest rate of the Notes was approximately 11.0% during both the nine months ended September 30, 2014 and 2015.

In August 2014, the Company redeemed $8.5 million in principal amount of its Notes due July 2019 for a price of $9.5 million and retired a portion of the related debt issuance costs of $160,000, which resulted in an aggregate, pre-tax loss on extinguishment of debt of $1.2 million. In October 2014, the Company redeemed $20.0 million in principal amount of its Notes due July 2019 for a purchase price of $22.1 million and retired a portion of the related debt issuance costs of $368,000, which resulted in aggregate a pre-tax loss on extinguishment of debt of $2.5 million.

Debt Service Requirements

Debt service requirements, including estimated future interest and premium, for each of the five years subsequent to September 30, 2015 and the period thereafter, are as follows:

	Payments Due by Period					
	Total	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Revolver, due June 25, 2020	$ 25,099	$ 25,099	$	$	$	$
Term Loan, due June 25, 2020	354,621	14,622	22,762	26,484	34,156	256,597
	$ 379,720	$ 39,721	$ 22,762	$ 26,484	$ 34,156	$ 256,597

Guarantees

Because Crown Media Holdings has no independent assets or operations, the guarantees by the Guarantors under the 2015 Credit Agreement are full and unconditional, as well as joint and several. All subsidiaries of Crown Media Holdings are Guarantors. The 2015 Credit Agreement imposes restrictions on the payment of dividends by Crown Media Holdings and the Guarantors.

5. Derivatives Instrument and Hedging Activities

Interest Rate Swap Agreement

As of September 30, 2015, the Company has one traditional interest rate swap agreement. The interest rate swap agreement has a notional amount of $200.0 million; matures on June 25, 2020; requires the Company to pay a fixed rate of interest of 1.645% per annum; a swap counterparty pays the Company a variable rate of interest based upon the three month LIBOR; and has interest settlement dates occurring on the

25th of January, April, July, and October through maturity to coincide with the interest payment dates of the 2015 Term Loan.

The Company designated the interest rate swap agreement above as qualifying cash flow hedge.

The Company did not have any such settlements for the three or nine months ended September 30, 2015.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from the payment of future uncertain cash amounts, which are determined by interest rates. The Company s derivative financial instrument is used to manage differences in the amount of the Company s expected cash payments related to the Company s borrowings. The Company does not speculate using derivative instruments.

As of September 30, 2015, the Company did not have any derivatives outstanding that were not designated in hedge accounting relationships.

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Cash Flow Hedges of Interest Rate Risk

The Company s objectives in using an interest rate derivative are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company uses an interest rate swap as part of its interest rate risk management strategy. During the three and nine months ended September 30, 2015, one derivative was used to hedge the variable cash flows associated with existing variable-rate debt. As of September 30, 2015, the Company had one outstanding interest rate swap agreement with a notional value of $200.0 million that was designated as a cash flow hedge of interest rate risk. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive loss and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the next twelve months, the Company estimates that $2.3 million will be reclassified to interest expense. This interest expense will also impact income tax expense.

Tabular Disclosure of Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company s derivative financial instrument as well as its classification on the unaudited condensed consolidated balance sheet as of September 30, 2015:

	As of September 30, 2015 Liability Derivatives		
	Balance Sheet Location	**Fair Value (in thousands)**	
Interest rate swap designated as a hedging instrument	Derivative Payable	$	3,337

The unrealized loss on derivatives is recorded net of a tax benefit of $1.1 million for the three and nine months ended September 30, 2015.

Tabular Disclosure of the Effect of Derivative Instrument on the Statements of Operations and Comprehensive Income (Loss)

The table below presents the pre-tax effect of the Company s derivative financial instrument on the unaudited condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2015:

	Three Months Ended September 30, 2015 (in thousands)		**Nine Months Ended September 30, 2015 (in thousands)**	
Derivative in Cash Flow Hedging Relationship:				
Loss related to effective portion of derivative recognized in accumulated other comprehensive loss	$	(3,337)	$	(3,337)
Gain related to effective portion of derivative reclassified from accumulated other comprehensive loss to interest expense	$	362	$	362

Loss related to ineffective portion of derivative recognized in other expense (income), net	$	$

Credit Risk-Related Contingent Features

The Company has an agreement with its derivative counterparty that contains a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

As of September 30, 2015, the termination value of derivative in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to this agreement was $3.3 million. As of September 30, 2015, the Company has posted no collateral related to this agreement. If the Company had breached any of these provisions at September 30, 2015, it could have been required to settle its obligation under the agreement at its termination value of $3.3 million.

Changes in Accumulated Other Comprehensive Loss

The following table reflects the changes in accumulated other comprehensive loss for the nine months ended September 30, 2015, net of tax:

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Accumulated other comprehensive loss:		**(Losses) Gains on Cash Flow Hedges (in thousands)**
Balance at December 31, 2014	$	
Other comprehensive loss before reclassifications, net of tax		(2,103)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		228
Unrealized loss on derivatives, net of tax		(1,875)
Balance at September 30, 2015	$	(1,875)

6. Fair Value

The following table presents the carrying amounts (including interest) and estimated fair values (including interest) of the Company s financial instruments at December 31, 2014 and September 30, 2015.

	December 31, 2014				**September 30, 2015**			
		Carrying Amount		**Fair Value**		**Carrying Amount**		**Fair Value**
				(In thousands)				
2011Term Loan and interest payable (Level 3)	$	115,367	$	115,975	$		$	
2015 Term Loan and interest payable (Level 3)						323,210		326,102
Interest rate swap (Level 2)						3,337		3,337
The Notes and interest payable (Level 2)		279,763		309,256				

ASC Topic 820 *Fair Value Measurements and Disclosures* defines fair value of a liability as the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company estimated the fair value of the Notes using the trading prices obtained from Bloomberg on December 31, 2014, a Level 2 input, due to the limited amount of trading activity. The Company estimated the fair value of the interest rate swap using the trading prices obtained from Bloomberg on September 30, 2015, a Level 2 input. The Company estimated the fair value of its 2011 Term Loan and 2015 Term Loan using a yield-to-maturity rate obtained from a pricing service, a Level 3 input.

At December 31, 2014 and September 30, 2015, the fair values of the Level 3 financial instruments were $116.0 million and $326.1 million, respectively. No transfers between levels occurred during 2014 and 2015.

Accounts payable and accrued liabilities and receivable are carried at reasonable estimates of their fair values because of the short-term nature of these instruments. Interest rates on borrowings under the revolvers are for relatively short periods and variable. Therefore, the fair value of this debt is not significantly affected by fluctuations in interest rates. The credit spread on the debt is fixed, but the market rate will fluctuate. Only a significant change in the creditworthiness of the Company would impact the credit spread. The Company believes that there has not been a significant change in this regard since issuance.

7. Related Party Transactions

State Tax Sharing Agreements

During 2014, the Company reimbursed Hallmark Cards approximately $385,000 with respect to a state tax sharing agreement with Hallmark Cards for the 2013 tax year. For the tax year ended December 31, 2014, the Company owed Hallmark Cards approximately $72,000 with respect to the state tax sharing agreement, which was paid during October 2015. At September 30, 2015, it is estimated that the Company will owe Hallmark Cards approximately $148,000 with respect to a state tax sharing agreement, which will be paid during 2016 two days prior to the due date of the state tax return.

The state tax sharing agreement will continue as long as the Company is included in Hallmark Cards consolidated or combined returns. The Company expects it will continue to be included in Hallmark Cards consolidated or combined returns for certain states.

Services Agreement with Hallmark Cards

Hallmark Cards provides Crown Media Holdings with tax, risk management, health, safety, environmental, insurance, legal, treasury, human resources, cash management and real estate consulting services. In exchange, the Company is obligated to pay

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Hallmark Cards a fee, plus out-of-pocket expenses and third party fees, in arrears on the last business day of each month. Fees for Hallmark Cards services were $342,000 for 2014 and are expected to be $389,000 for 2015.

At December 31, 2014 and September 30, 2015, the Company s payables to Hallmark Cards affiliates in the accompanying consolidated balance sheets were $150,000 and $212,000, respectively. The December 31, 2014 balance was comprised of taxes and the September 30, 2015 balance was comprised of $208,000 of taxes and $4,000 of intercompany expenses.

Hallmark Hall of Fame Programming License Agreement

In 2008, Crown Media United States entered into an agreement with Hallmark Hall of Fame Productions, LLC for the exclusive television license of 58 Hallmark Hall of Fame movies, consisting of 16 contemporary Hallmark Hall of Fame titles (*i.e*., produced from 2003 to 2008) and 42 older titles, for exhibition on Hallmark Channel and Hallmark Movies and Mysteries. These titles are licensed for ten year windows, which commenced at various times between 2007 and 2010. The total license fee for these movies is $17.2 million and is payable in equal monthly installments over the various ten-year exhibition windows.

In 2011, Crown Media United States entered into an additional agreement with Hallmark Hall of Fame Productions, LLC for the exclusive television license of 16 Hallmark Hall of Fame movies produced from 2009 through 2014, for exhibition on Hallmark Channel and Hallmark Movies and Mysteries. These titles are licensed for ten-year windows, with windows commencing at various times between 2011 and 2014, depending on availability. The total license fee for these movies is $10.0 million and is payable in equal monthly installments over the various ten-year exhibition windows.

Effective October 1, 2014, Crown Media United States entered into an additional agreement with Hallmark Hall of Fame Productions, LLC for the exclusive television license of Hallmark Hall of Fame movies produced from 2014 through 2016, for exhibition on Hallmark Channel and Hallmark Movies and Mysteries. These titles are licensed for ten-year windows, with windows commencing at times as agreed to by the parties. The license fee for these movies is $660,000 per movie and is payable in equal yearly installments over the license term.

Effective July 6, 2013, the Company and Hallmark Cards extended their July 6, 2011 agreement for another year, whereby Hallmark Cards purchased advertising time from the Company and provided one-week, limited play licenses for each of two new Hallmark Hall of Fame two-hour movies produced by Hallmark Cards and up to two additional Hallmark Hall of Fame movies premiered in a previous year. The Company recognized advertising revenue of approximately $2.1 million as it fulfilled its advertising obligation to Hallmark Cards over the life of the agreement.

Effective September 12, 2014, the Company entered into an agreement with Hallmark Cards whereby Hallmark Cards has purchased advertising time from the Company and has provided exclusive premier rights to the two new Hallmark Hall of Fame two-hour movies. Additionally, the Company had exclusive rights to broadcast two Hallmark Hall of Fame two-hour movies, which had premiered in a previous year. The Company has received $3.0 million under this agreement in connection with Hallmark Cards advertising on Hallmark Channel. The Company recognized advertising revenue of approximately $3.8 million as it fulfilled its advertising obligations to Hallmark Cards over the life of the agreement. As of September 30, 2015, four of these movies have aired on Hallmark Channel.

Effective July 28, 2015, the Company entered into a new agreement with Hallmark Cards, pursuant to which Hallmark Cards has agreed to provide exclusive premier rights to a new holiday Hallmark Hall of Fame two-hour movie and to purchase advertising time from the Company for $2.3 million.

Northpole

The Company has produced *Northpole*, a Hallmark Channel original holiday movie, which premiered during the 2014 holiday season. It was the first full-length, two-hour original holiday movie produced by Hallmark Channel based on Hallmark Cards intellectual property. Costs in the amount of $6.6 million related to this movie have been capitalized and are included in long-term programming rights on the unaudited condensed consolidated balance sheet at December 31, 2014. At September 30, 2015, the unaudited condensed consolidated balance sheet reflected $3.6 million related to this film. The Company recognized licensing revenue of approximately $900,000 related to a merchandising rights agreement with Hallmark Cards during the year ended December 31, 2014, and $0 for both the three and nine months ended September 30, 2015.

Northpole II

The Company has produced *Northpole II*, a Hallmark Channel original holiday movie, which will premier during the 2015 holiday season. It is the second full-length, two-hour original holiday movie produced by Hallmark Channel based on Hallmark Cards intellectual property. Costs in the amount of $6.2 million related to this movie have been capitalized and are included in long-term programming rights on the unaudited condensed consolidated balance sheet at September 30, 2015. Deferred revenue of

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approximately $855,000 related to a merchandising rights agreement with Hallmark Cards has been included in accounts payable and accrued liabilities on the unaudited condensed consolidated balance sheet at September 30, 2015.

Trademark Agreement with Hallmark Cards

Crown Media United States has a trademark license agreement with Hallmark Licensing, LLC (f/k/a Hallmark Licensing, Inc., Hallmark Licensing), an affiliate of Hallmark Cards, for use of the Hallmark mark for Hallmark Channel and for Hallmark Movies and Mysteries. The agreement terminates upon the earlier of (i) June 30, 2021 or (ii) the payment in full of all obligations, and terminations of all commitments, under the 2015 Credit Agreement.

The Company is not required to pay any royalty fees under the trademark license agreement. Accordingly, no amounts have been reflected in the accompanying unaudited condensed consolidated balance sheets or unaudited condensed consolidated statements of operations and comprehensive income (loss) of the Company for these licenses.

Under the license agreement, the Company would be in default if it (i) distributed any programming which fails to comply with the standards outlined, or fails to comply with any other term of the agreement and does not cure such failure within 10 days of notice, (ii) fails to make any payment due under any loan agreement within five days of its due date or (iii) receives an opinion from its auditors that expresses their doubt with respect to the Company s ability to continue as a going concern, among others.

8. Income Taxes

The Company files a separate-company federal tax return. In 2013 and 2014 the Company generated federal and state taxable income for both regular tax and alternative minimum tax (AMT) purposes. For regular tax purposes, this income was, and the Company expects it will continue to be, fully offset by net operating loss carryforwards (NOLs). However, for federal AMT purposes, loss carryforwards used to offset the AMT income are subject to a 90% limitation.

During the three months ended September 30, 2014 and 2015, the Company paid AMT of $650,000 and $750,000, respectively. During the three months ended September 30, 2014 and 2015, the Company recognized AMT of $489,000 and $244,000, respectively, and these amounts are included as components of accrued liabilities on the accompanying unaudited condensed consolidated balance sheets.

During the nine months ended September 30, 2014 and 2015, the Company paid AMT of $1.9 million and $2.2 million, respectively. During the nine months ended September 30, 2014 and 2015, the Company recognized AMT of $1.4 million and $1.5 million, respectively, and these amounts are included as components of accrued liabilities on the accompanying unaudited condensed consolidated balance sheets.

At December 31, 2014, the Company had federal NOLs of $447.3 million and various state NOLs. The Company maintains a $3.4 million valuation allowance against net deferred tax assets, which are comprised of state NOLs that the Company does not anticipate being able to realize. The federal NOLs will expire between 2019 and 2021, and the state NOLs will expire between 2016 and 2032.

At both December 31, 2014, and September 30, 2015, the total amount of unrecognized tax benefits for uncertain tax positions was $0. The Company recognized no increase or decrease in the amount of unrecognized tax benefits for uncertain tax positions. Accordingly, at both December 31, 2014, and September 30, 2015, there is no accrued interest related to uncertain tax positions.

By virtue of its previous inclusion in Hallmark Cards consolidated tax group, the Company is subject to examination by the Internal Revenue Service for periods subsequent to March 10, 2003. Further, NOLs are subject to examination in the year they are utilized regardless of whether the tax year in which they were generated has been closed by statute of limitations. The amount subject to disallowance is limited to the NOL utilized. Accordingly, the Company is subject to examination for NOLs generated prior to March 11, 2003 as those NOLs are utilized in future tax returns.

9. Long Term Incentive Plan

Employee

The Company grants incentive awards pursuant to the 2012 Long Term Incentive Plan (the 2012 Plan). For awards granted in 2012 through 2015, the target amount of an award granted was based on a percentage of each employee s annual base salary ranging from 18% to 85%. Each award is comprised of a Performance Award and an Employment Award. For awards granted in 2010 through 2012, the Performance Award and the Employment Award each constituted half of the award. For awards granted in 2013 through 2015, the Performance Award constituted 60% of the award and the Employment Award constituted 40% of the award. The

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Performance Award is based on the Company s achievement of a predetermined cash flow goal (cash flow before interest, taxes and long term incentive expense, and debt repayments) and an adjusted EBITDA goal (before long term incentive) over a three year performance period.

Each of the 40% Employment Awards are subject to continued employment and each of the 60% Performance Awards are subject to the Company s achievement of financial performance criteria. Each award will be settled in cash and is subject to earlier pro rata settlement as provided in the 2012 Plan.

Changes in the employee long term incentive plan account are as follows:

	Granted Incentive Compensation Range		Vesting Date		Settlement (in thousands)			
					Employment Awards		Performance Awards	
Grant Date	Low Grant	High Grant	Employment Awards	Performance Awards	Date	Amount	Date	Amount
4/25/2011	$ 23,000	$ 550,000	8/31/2013	12/31/2013	9/6/2013	$ 1,452	3/14/2014	$ 1,551
3/1/2012	$ 22,000	$ 652,000	8/31/2014	12/31/2014	9/5/2014	$ 1,509	3/6/2015	$ 1,938
3/1/2013	$ 20,000	$ 680,000	12/31/2015	12/31/2015	N/A	$	N/A	$
3/1/2014	$ 27,000	$ 707,000	12/31/2016	12/31/2016	N/A	$	N/A	$
3/1/2015	$ 29,000	$ 741,000	12/31/2017	12/31/2017	N/A	$	N/A	$

Independent Directors

The Company entered into agreements (LTI Agreements) granting incentive compensation to each director who is not an employee of the Company or Hallmark Cards or their respective subsidiaries subject to continued membership on the Company s board and achievement of the financial performance criteria. Each award will be settled in cash and is subject to earlier pro rata settlement as provided in each LTI Agreement.

Changes in the independent director long term incentive plan account are as follows:

			Settlement	
Grant Date	Grant Amount	Vesting Date	Date	Amount
8/17/2012	$ 50,000	12/31/2014	3/4/2015	$ 306,000
3/1/2013	$ 50,000	12/31/2015	N/A	$
8/16/2013	$ 35,000	8/15/2014	8/19/2014	$ 262,000
3/1/2014	$ 50,000	12/31/2016	N/A	$
3/1/2015	$ 50,000	12/31/2017	N/A	$

Vesting

Vesting of the 2013, 2014 and 2015 performance awards under the LTI Agreements will be determined in accordance with the Company s performance criteria concerning adjusted EBITDA and cash flow and subject to earlier pro rata settlement as provided in each LTI Agreement.

In recognition of these LTI Agreements, the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) include $1.0 million and $1.1 million among selling, general and administrative expense for the three months ended September 30, 2014 and 2015, respectively. In recognition of these LTI Agreements, the accompanying unaudited condensed consolidated statements of operations and comprehensive income (loss) include $2.9 million and $3.3 million among selling, general and administrative expense for the nine months ended September 30, 2014 and 2015, respectively. Additionally, the $5.9 million and $6.9 million liabilities for these agreements were included in accounts payable and accrued liabilities in the accompanying unaudited condensed consolidated balance sheets at December 31, 2014, and September 30, 2015, respectively.

10. Commitments and Contingencies

In the normal course of business, the Company has entered into agreements that commit it to make cash payments in future periods with respect to non-cancelable leases and programming contracts.

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Legal Proceedings

From time to time, the Company and/or various officers and directors may be named as defendants in legal actions involving various claims incident to the conduct of its business. Whenever the Company concludes that an adverse outcome in any such action is probable and a loss amount can reasonably be estimated, the Company records such loss amount. Related legal costs, net of anticipated insurance reimbursements, are expensed as incurred.

International Residual and Participation Obligation

Accounts payable and accrued liabilities as of both December 31, 2014, and September 30, 2015 include $1.6 million for the estimated cost of residuals and participations that the buyer of our international business (which included the international rights to our film library) would otherwise be obligated to pay to third parties in connection with international film library sales between the April 2005 sale and April 2015.

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ITEM 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 in this Quarterly Report on Form 10-Q. The following analysis contains forward-looking statements about our future revenue, operating results and expectations. See Risk Factors and Forward Looking Statements below for a discussion of the risks, assumptions and uncertainties affecting these statements.

Description of Business and Overview

Current Business

We own and operate pay television Networks, each of which is dedicated to high quality entertainment programming for families. Hallmark Channel features popular television series such as *Golden Girls*, *The Middle* and *Frasier* as well as original series such as *Cedar Cove*, *When Calls the Heart* and *Good Witch*, and movies with compelling stories and internationally recognized stars. It also features lifestyle programming such as the two hour weekday series, *Home and Family*. We rebranded Hallmark Movie Channel to Hallmark Movies and Mysteries in September 2014 to give the Network a distinctly different identity and programming lineup than that of Hallmark Channel. Prior to the rebranding, the channel offered original movies, classic theatrical films and movies from the award winning Hallmark Hall of Fame collection. Hallmark Movies and Mysteries emphasizes programming of the mystery genre, including original movies, movie franchises and series, while continuing to offer the content previously provided under the Hallmark Movie Channel brand. Consistent with the Hallmark brand, both Networks are preeminent sources of holiday programming, with Hallmark Channel often ranking first among cable networks for movies during the Christmas holiday season.

Reaching 90.5 million subscribers as of September 2015, Hallmark Channel is one of the most widely distributed independent networks in the United States. Hallmark Movies and Mysteries reaches more than 62.5 million subscribers as of September 2015.

We believe that we have established these Networks as destinations for viewers seeking outstanding family entertainment and as attractive outlets for advertisers seeking to target these viewers.

Programming acquired from third parties is an important component of our Networks as we continually develop and refine our programming strategy. This programming includes original series and movies produced specifically for us by a variety of experienced television production companies and theatrical movies and off network television series licensed to us by major studios and distributors. Our agreements for original series and movies typically provide for exclusive rights in the United States in all media for periods ranging from eight years to perpetuity. Our license agreements for theatrical films and off network programming usually give us more limited rights for license periods of five or more years to exhibit the programming on our Networks. From time to time, we also exhibit excerpts of certain programming on our website.

We also established Crown Media Productions as our in-house production company aimed at increasing the production of original content for multiple platforms. During 2015, Crown Media Productions will produce up to six movies for which we will fund all production costs, own all worldwide rights and fully control the creative and production process. These movies, along with the many other original movies and series which we have commissioned over the years and to which we hold exclusive U.S. rights in all media, are a valuable asset for us. They will give us the opportunity to meaningfully participate in and profit from new distribution technologies as they develop.

Hallmark Channel and Hallmark Movies and Mysteries are currently distributed to approximately 91% and 63%, respectively, of all United States pay television subscribers. We currently distribute (a) Hallmark Channel through approximately 5,215 cable, satellite and other pay television distribution systems and (b) Hallmark Movies and Mysteries through approximately 3,977 of such systems.

Four and five of our distributors each accounted for more than 10%, and together accounted for a total of 73% and 85% of our consolidated subscriber revenue for the three and nine months ended September 30, 2015, respectively. Two of our distributors each accounted for approximately 15% or more of our consolidated subscribers for both the three and nine months ended September 30, 2015, and together accounted for 42% of our consolidated subscribers on that date. Four of our programming content providers each accounted for more than 10% of our total programming rights payable for the nine months ended September 30, 2015, and together accounted for a total of 63% of the consolidated programming rights payable during that time period.

We view a subscriber as a household that receives, on a full or part-time basis, a Network as part of a program package or a program tier of a distributor. We determine our Hallmark Channel and Hallmark Movies and Mysteries subscribers from subscriber numbers reported by Nielsen. Subscribers include both viewers who pay a monthly fee for the tier programming and so called promotional subscribers who are given free access to the tier by the distributor for a limited time.

We license the trademark Hallmark for use on our Networks pursuant to trademark license agreements with a subsidiary of Hallmark Cards. We believe that the use of this trademark is important for our Networks due to the substantial name recognition and favorable characteristics associated with the name.

Current Challenges

We face numerous operating challenges. Among such challenges are increasing viewership ratings, maintaining and increasing advertising revenue, maintaining and expanding the distribution of the Networks, broadening viewership demographics to meet our target audience, and controlling costs and expenses.

Ratings

Ratings success plays a significant role in our ability to achieve our distribution and advertising goals. We believe our ratings are affected by our ability to: (i) acquire the broadcast rights for and produce series and original movies that appeal to our target demographic and (ii) develop a programming schedule that attracts a high number of viewers. Original productions are our most high profile programs and generate Hallmark Channel s highest ratings. We have typically incurred additional marketing and promotional expenses to help drive higher ratings for original programming such as the series *Cedar Cove* in 2013, 2014 and 2015, *When Calls the Heart* in 2014 and 2015, *Signed, Sealed, Delivered* in 2014 and *Good Witch* in 2015. We plan to maintain or increase the number of our original productions and develop a programming schedule that attracts a greater number of viewers in our target demographic, all while controlling the costs and expenses relating to these actions.

Advertising Revenue

During the three months ended September 30, 2015, CPMs for commitments in the third quarter of the 2015 Scatter Market for Hallmark Channel were 49% greater than the CPMs for commitments during the 2014/2015 Upfront Season and were 3% higher than achieved during the three months ended September 30, 2014 during the third quarter of the 2014 Scatter Market. During the three months ended September 30, 2015, CPMs for commitments in the third quarter of the 2015 Scatter Market for Hallmark Movies and Mysteries were 36% greater than the CPMs for commitments during the 2014/2015 Upfront Season and 9% lower than achieved during the three months ended September 30, 2014 during the third quarter of the 2014 Scatter Market. The Scatter Marketplace was strong, with volume up significantly on both Networks. Hallmark Channel reflected growth in CPM along with high volume of dollars while Hallmark Movies and Mysteries reflected a decrease in CPM as compared to last year s Scatter Market, but offset by a 128% increase in dollar volume.

Our direct response rates for Hallmark Channel during the three months ended September 30, 2015 were 3% higher than those during the three months ended September 30, 2014. Our direct response rates for Hallmark Movies and Mysteries during the three months ended September 30, 2015 were 28% higher than those during the three months ended September 30, 2014. The increased scatter volume placed pressure on the direct response inventory. This, coupled with a strong market, led to increased direct response rates on both Networks.

During the 2014/2015 and the 2015/2016 Upfront Seasons, we entered into agreements with major advertising firms covering approximately 41% and 39% of our advertising inventory, respectively, for Hallmark Channel. Advertising inventory units committed during the 2015/2016 Upfront Season for Hallmark Channel were at CPMs 4% higher than the CPMs for those committed during the 2014/2015 Upfront Season, reflecting, in part, increases in rates related to our lifestyle programming block. We are selling the balance of our 2015/2016 broadcast season inventory in the Scatter Market.

During the 2014/2015 and the 2015/2016 Upfront Seasons, Hallmark Movies and Mysteries entered into advertising commitments for approximately 30% and 29% of its advertising inventory, respectively. Advertising inventory units committed during the 2015/2016 Upfront Season for Hallmark Movies and Mysteries were at CPMs 3% higher than the CPMs for those committed during the 2014/2015 Upfront Season.

Each advertiser with an upfront contract has the option to terminate a portion of its contract. During the three months ended September 30, 2014 and 2015, Hallmark Channel experienced cancellation rates of approximately 13% and 15%, respectively. During the three months ended September 30, 2014 and 2015, Hallmark Movies and Mysteries experienced cancellation rates of approximately 10% and approximately 9%, respectively.

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Distribution Agreements

Distribution agreements with multiple systems operators are important as they affect our number of subscribers, which in turn has a major impact on our subscriber fees, the number of persons viewing our programming, and the rates charged for advertising. Our long-term distribution challenge will be obtaining favorable renewals of our major distribution agreements as they expire. Our major distribution agreements have terms which expire at various times from December 2015 through December 2032.

Viewers today have many low cost alternatives outside of the traditional linear cable channels to gain access to programming content. Businesses of most networks, including Hallmark Channel and Hallmark Movies and Mysteries, are threatened by an increase of cord cutters (i.e., viewers dropping traditional cable and satellite services to instead receive their programming over the internet from over-the-top services, such as SlingTV, Hulu and Netflix) and cord shavers (i.e., viewers scaling back the cost of traditional cable packages by opting for less expensive packages).

The universe of cable and satellite TV subscribers in the United States is approximately 99.8 million homes. The top 30 cable TV networks in the United States, measured by the number of subscribers, have 91.0 million or more subscribers. It is a mature market with relatively high penetration. According to Nielsen, in September 2015, Hallmark Channel and Hallmark Movies and Mysteries were distributed to 90.5 million subscribers and 62.5 million subscribers, respectively.

In July 2015, the Company and AT&T launched Hallmark Channel and Hallmark Movies and Mysteries on AT&T U-verse, again making the channels available to AT&T U-verse subscribers. A prior distribution agreement between the Company and AT&T had expired on August 31, 2010 and the networks had not been on AT&T U-verse since such date.

Demographics

Each pay television network attracts a different audience with different viewer demographics (*i.e.*, viewers categorized by characteristics such as age, gender and income). As a result, advertisers are able to target the specific groups of viewers who are most likely to purchase their products by advertising on networks which attract the desired viewer demographic.

Our target viewer demographics for Hallmark Channel and Hallmark Movies and Mysteries are adults aged 25 to 54 and women aged 25 to 54. The average viewing age for Hallmark Channel was 58.9 and 58.3 for the nine months ended September 30, 2014 and 2015, respectively. The average viewing age for Hallmark Movies and Mysteries was 65.0 for both the nine months ended September 30, 2014 and 2015. We believe we need to draw in viewers in our target demographic in order to achieve our revenue goals.

Revenue from Continuing Operations

Our revenue primarily consists of advertising fees and subscriber fees.

Advertising

We earn advertising revenue in the form of spot or general rate advertising and direct response advertising. Spot advertisements and direct response advertisements are generally 30 seconds long and are aired during or between programs. Spot advertisements are priced at a rate per thousand viewers (*i.e.,* the CPM) and almost always include our commitment to deliver a specified number of viewers. Our revenue from direct response advertising varies in proportion to the direct sales achieved by the advertiser in response to the advertising. It is sold without ratings or product sales commitments. Our advertising revenue is affected by the mix of these forms of advertising. Advertising rates also vary by time of year due to seasonal changes in television viewership.

Advertising revenue is recorded net of ADUs. Whenever spot advertising is aired in programs that do not achieve promised viewership ratings, we issue ADUs which provide the advertiser with additional spots at no additional cost to make up for the shortfall. We defer a pro rata amount of advertising revenue and recognize a like amount as a liability for advertisements that do not achieve promised viewership ratings. When the make-good spots are subsequently aired, revenue is recognized and the liability is reduced. The level of inventory that is utilized for our ADU liability varies over time and is influenced by prior fluctuations in our under-delivery, if any, of viewers against promised ratings as well as the rate at which we and our customers mutually agree to utilize the ADUs.

We typically commit approximately 40% of Hallmark Channel s advertising inventory and 30% of Hallmark Movies and Mysteries advertising inventory in the broadcast Upfront Season. We hold back a small percentage of our inventory for ADUs and commit the remainder to the Scatter Market, calendar year upfront and the direct response market.

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The volume of advertising inventory that we have available for sale is determined by our chosen commercial load per hour and the number of broadcast hours in which we air licensed program content. Our Networks are broadcast 24 hours per day. Our need to reserve inventory for the use of ADUs reduces the amount of advertising inventory available for cash sales.

We have advertising sales offices in New York, Los Angeles, Chicago and Atlanta. In addition, we have made significant investments in programming, research, marketing and promotions, all specifically designed to support the sale of advertising time on our Networks.

Subscriber Fees

Subscriber fees are payable to us on a per subscriber basis by pay television distributors for the right to carry our Networks. The fees we receive per subscriber vary with changes in the following factors, among others:

- the degree of competition in the market;
- the relative position in the market of the distributor and the popularity of the Network;
- the packaging arrangements for the Network; and
- length of the contract term and other commercial terms.

We are in continuous negotiations with our existing distributors to have our Networks placed in packages with a greater number of subscribers, thereby increasing our subscriber base and enhancing our opportunities to generate advertising revenue. Fees that we pay to a distributor are capitalized and amortized over the term of the applicable distribution agreement as a reduction in subscriber fee revenue. At the time we sign a distribution agreement, and periodically thereafter, we evaluate the recoverability of the costs we incur against the incremental revenue directly and indirectly associated with each agreement.

Our Networks are usually offered as one of a number of networks on either a basic tier or part of other program packages and are not generally offered on a stand-alone basis. Thus, while cable or satellite customers may subscribe and unsubscribe to the tiers and program packages in which one of our Networks is placed, these customers do not subscribe and unsubscribe to our Networks alone.

Each Network s subscriber count depends on the number of distributors carrying the Network, the size of such distributors, and the program tiers on which the Network is carried by these distributors. From time to time, we experience increases or decreases in the number of subscribers as promotional periods end, as distributors reposition the Networks from one tier or package to another, or as a distributor arrangement is amended or terminated by us or the distributor. Management analyzes the estimated effect each new or amended distribution agreement will have on revenue and costs.

Cost of Services

Our cost of services consists primarily of the amortization of programming rights, the cost of signal distribution and the cost of promotional segments that are aired between programs.

Critical Accounting Policies, Judgments and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For further information regarding our critical accounting policies, judgments and estimates, please see Notes to Unaudited Condensed Consolidated Financial Statements Summary of Significant Accounting Policies and Estimates in Part I, Item 1 of this Quarterly Report on Form 10-Q and Critical Accounting Policies, Judgments and Estimates in Part II, Item 7 of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission (the SEC) for the year ended December 31, 2014.

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Effects of Transactions with Related and Certain Other Parties

We have entered into a number of significant transactions with Hallmark Cards and certain of its subsidiaries. These transactions include, among other things, trademark licenses, program licenses, and an administrative services agreement. A summary of the terms and financial impact of these transactions is described in our Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2014 and in the footnotes to the financial statements included in this Quarterly Report on Form 10-Q.

Selected Historical Consolidated Financial Data of Crown Media Holdings

In the table below, we provide selected historical unaudited condensed consolidated financial and other data of Crown Media Holdings and its subsidiaries. The following selected unaudited condensed consolidated statement of operations data for three and nine months ended September 30, 2014 and 2015, are derived from the unaudited financial statements of Crown Media Holdings and its subsidiaries. Ratings and subscriber information is also unaudited. This data should be read together with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Percent Change
Revenue:						
Advertising	$ 71,373	$ 83,601	17%	$ 216,580	$ 252,098	16%
Subscriber fees	20,665	21,869	6%	62,636	63,336	1%
Other revenue	1,289	744	-42%	2,139	4,540	112%
Total revenue	93,327	106,214	14%	281,355	319,974	14%
Cost of Services:						
Programming costs	36,800	43,458	18%	114,432	119,627	5%
Operating costs	4,199	5,730	36%	11,982	15,797	32%
Total cost of services	40,999	49,188	20%	126,414	135,424	7%
Selling, general and administrative expense	16,193	19,092	18%	49,408	57,039	15%
Marketing expense	1,353	985	-27%	6,195	7,637	23%
Income before interest and income tax expense	34,782	36,949	6%	99,338	119,874	21%
Interest expense	(9,939)	(4,196)	-58%	(30,041)	(22,034)	-27%
Loss on extinguishment of debt	(1,180)	(18,581)	1475%	(1,180)	(22,478)	1805%
Income before income tax expense and loss from sale of discontinued operations	23,663	14,172	-40%	68,117	75,362	11%
Income tax provision	(8,766)	(5,471)	-38%	(25,220)	(28,093)	11%
Income from continuing operations	14,897	8,701	-42%	42,897	47,269	10%
Loss on disposal of international business		(44)			(44)	
Net income	$ 14,897	$ 8,657	-42%	$ 42,897	$ 47,225	10%
Cash Flow Data:						
Net cash provided by operating activities	$ 14,409	$ 14,059	-2%	$ 51,359	$ 71,621	39%
	$ (1,132)	$ (111)	-90%	$ (2,412)	$ (1,698)	-30%

Net cash used in investing activities								
Net cash used in financing activities	$	(21,351)	$	(16,116)	-25%	$ (46,993)	$	(60,269)	28%
Other Data (Unaudited):								
HC day household ratings (1)(3)(4)		0.4		0.5	1%	0.4		0.4	4%
HC primetime household ratings (2)(3)(4)		0.7		0.6	-8%	0.6		0.7	6%
HMM day household ratings (1)(3)(4)		0.4		0.5	32%	0.4		0.5	29%
HMM primetime household ratings (2)(3)(4)		0.5		0.6	17%	0.5		0.6	19%
HC day W25-54 ratings (1)(3)(4)		0.3		0.3	5%	0.2		0.3	16%
HC primetime W25-54 ratings (2)(3)(4)		0.3		0.3	-12%	0.3		0.3	9%
HMM day W25-54 ratings (1)(3)(4)		0.1		0.2	37%	0.1		0.2	45%
HMM primetime W25-54 ratings (2)(3)(4)		0.2		0.2	26%	0.1		0.2	40%
HC subscribers at period end (4)		85,406		90,506	6%	85,406		90,506	6%
HMM subscribers at period end (4)		54,573		62,509	15%	54,573		62,509	15%

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(1) Total day means the time period that Nielsen measures each individual day, 6 a.m. to 6 a.m.

(2) Primetime is defined as 8:00 - 11:00 P.M. in the United States.

(3) These Nielsen ratings are for the time period June 30, 2014 through September 28, 2014, compared to June 29, 2015 through September 27, 2015, and December 30, 2013 through September 28, 2014, compared to December 29, 2014 through September 27, 2015.

(4) HC represents Hallmark Channel and HMM represents Hallmark Movies & Mysteries. Ratings and subscribers are reported

by The Nielsen Company.

Results of Operations

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2015

Revenue. Our revenue from continuing operations, comprised primarily of advertising and subscriber fees, increased $12.9 million or 14% from the third quarter of 2014 to the third quarter of 2015.

The $12.2 million or 17% increase in advertising revenue is due to growth in audience levels across both channels and ratings improvements for Hallmark Movies and Mysteries. Advertising revenue from Hallmark Movies and Mysteries was $16.6 million and $23.3 million for the three months ended September 30, 2014 and 2015, respectively.

Our subscriber fee revenue increased $1.2 million or 6% due to revenue from one distributor. Other revenue decreased $545,000 from the third quarter of 2014 to the third quarter of 2015. During the third quarter of 2014, we recorded $910,000 of revenue from a licensing agreement with an independent content distributor. During the third quarter of 2015, we recorded $400,000 from a licensing agreement with an international content distributor.

Cost of services. Cost of services as a percent of revenue increased from 44% during the three months ended September 30, 2014, to 46% during the three months ended September 30, 2015. This increase results primarily from the effect of the 18% increase in programming costs discussed below offset, in part, by the 17% increase in advertising revenue discussed above.

Programming costs increased $6.7 million or 18%, from the three months ended September 30, 2014, to the three months ended September 30, 2015, primarily due to the higher costs associated with the production of the current seasons of *Cedar Cove* and the *Home & Family*. Operating costs increased $1.5 million from the three months ended September 30, 2014, to the three months ended September 30, 2015, due to increases of $649,000 in residual expenses related to increased usage, $363,000 in employee costs, and increases in the costs of producing non-programming creative elements and bad debt expense. Bad debt expense increased from $10,000 during the third quarter of 2014 to

$135,000 during the third quarter of 2015 primarily due to bankruptcies of certain customers.

Selling, general and administrative expense. Our selling, general and administrative expense increased $2.9 million from the three months ended September 30, 2014, to the three months ended September 30, 2015, primarily due to a 33% increase in employee costs and other nominal increases.

Marketing expense. Our marketing expense decreased $368,000, or 27%, from the third quarter of 2014 to the third quarter of 2015 primarily due to the timing of marketing spends and allocation of marketing dollars.

Interest expense. Interest expense decreased $5.7 million from the three months ended September 30, 2014 to the three months ended September 30, 2015 due to lower rates on the new credit facility, offset slightly by interest attributable to the interest rate swap.

Loss on extinguishment of debt. On July 24, 2015, the Company redeemed $271.5 million in principal amount of Notes for a price of $285.8 million and recorded a charge for the associated debt issuance costs of approximately $4.3 million, which resulted in an aggregate, pre-tax loss on extinguishment of debt of approximately $18.6 million. In August 2014, the Company redeemed $8.5 million in principal amount of its Notes for a price of $9.5 million and retired a portion of the related debt issuance costs of $160,000, which resulted in an aggregate, pre-tax loss on extinguishment of debt of $1.2 million.

Income tax provision. Provision for income tax of $8.8 million and $5.5 million reflect corresponding effective tax rates of 37.0% and 38.6% for the three months ended September 30, 2014 and 2015, respectively. A significant portion of each provision consists of a deferred component that represents a non-cash expense.

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Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2015

Revenue. Our revenue from continuing operations, comprised primarily of advertising and subscriber fees, increased $38.6 million or 14% during the nine months ended September 30, 2014, to the nine months ended September 30, 2015. The $35.5 million or 16% increase in advertising revenue is due to growth in audience levels and ratings across both channels. Our subscriber fee revenue increased $700,000 or 1% due to the increase in revenue from one distributor. Other revenue increased $2.4 million to $4.5 million primarily due to $2.3 million from new licensing agreements with an independent content distributor.

Cost of services. Cost of services as a percent of revenue decreased from 45% during the nine months ended September 30, 2014, to 42% during the nine months ended September 30, 2015. This decrease results primarily from the effects of the 16% increase in advertising revenue discussed above offset, in part, by the 5% increase in programming costs, discussed below.

Programming costs increased $5.2 million or 5%, from the nine months ended September 30, 2014, to the nine months ended September 30, 2015, primarily due to the timing and mix of aired programming. Operating costs increased $3.8 million from the nine months ended September 30, 2014, to the nine months ended September 30, 2015, due to increases in the costs of producing non-programming creative elements, residual expense, employee costs and bad debt expense. Bad debt expense increased from $123,000 for the nine months ended September 30, 2014 to $827,000 for the nine months ended September 30, 2015 primarily due to bankruptcies of two customers. Residual expense increased $1.2 million due to increased usage and costs while employee costs increased $768,000.

Selling, general and administrative expense. Our selling, general and administrative expense increased $7.6 million from the nine months ended September 30, 2014, to the nine months ended September 30, 2015, primarily due to a 22% increase in employee costs, an 8% increase in research costs and other nominal increases.

Marketing expense. Our marketing expense increased $1.4 million, or 23%, from the nine months ended September 30, 2014, to the nine months ended September 30, 2015, primarily due to our 2015 tent pole marketing campaign surrounding our original series, *Good Witch*.

Interest expense. Interest expense decreased $8.0 million from the nine months ended September 30, 2014 to the nine months ended September 30, 2015 due to lower rates on the new credit facility, offset slightly by interest attributable to the interest rate swap.

Loss on extinguishment of debt. In June 2015, the Company repaid $99.6 million of principal under its 2011 Term Loan using cash on hand of $19.6 million and proceeds from the 2015 Term Loan of $80.0 million. In conjunction with this transaction, it retired $2.7 million of debt issuance costs and $1.2 million original issue discount costs related to the 2011 Term Loan, which resulted in aggregate a pre-tax loss on extinguishment of debt of $3.9 million. On July 24, 2015, the Company redeemed $271.5 million in principal amount of Notes for a price of $285.8 million and recorded a charge for the associated debt issuance costs of approximately $4.3 million, which resulted in an aggregate, pre-tax loss on extinguishment of debt of approximately $18.6 million.

In August 2014, the Company redeemed $8.5 million in principal amount of its Notes for a price of $9.5 million and retired a portion of the related debt issuance costs of $160,000, which resulted in an aggregate, pre-tax loss on extinguishment of debt of $1.2 million.

Income tax provision. Provision for income tax of $25.2 million and $28.1 million reflect corresponding effective tax rates of 37.0% and 37.3% for the nine months ended September 30, 2014 and 2015, respectively. A significant portion of each provision consists of a deferred component that represents a non-cash expense.

Liquidity and Capital Resources

Cash Flow from Operating Activities. Cash provided by operating activities was $51.4 million and $71.6 million for the nine months ended September 30, 2014 and 2015, respectively. We had net income of $42.9 million for the nine months ended September 30, 2014, as compared to $47.2 million for the nine months ended September 30, 2015. Our depreciation and amortization expense for the nine months ended September 30, 2015 increased $5.4 million due to the timing and mix of aired programming. We made programming payments of $142.3 million and $148.9 million during the nine months ended September 30, 2014 and 2015, respectively. Additionally, we had cash receipts of $305.3 million and $334.5 million during the nine months ended September 30, 2014 and 2015, respectively.

Cash Flow from Investing Activities. Cash used in investing activities was $2.4 million and $1.7 million during the nine months ended September 30, 2014 and 2015, respectively. In 2014 we renovated a new floor in the California office and also replaced

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computers and servers. In 2015 we invested in a co-location facility for disaster recovery, replaced local area networks in all office locations and completed a dedicated storage area network for our digital endeavors.

Cash Flow from Financing Activities. Cash used in financing activities was $47.0 million and $60.3 million for the nine months ended September 30, 2014 and 2015, respectively. Redemption of Notes were $8.5 million and $271.5 million for the nine months ended September 30, 2014 and 2015, respectively. Premiums on Notes were $1.0 million and $14.3 million for the nine months ended September 30, 2014 and 2015, respectively. We made principal payments under the 2011 Term Loan of $36.5 million and $119.6 million for the nine months ended September 30, 2014 and 2015, respectively. We borrowed $325.0 million under the 2015 Term Loan and $25.0 million under the 2015 Revolver during the nine months ended September 30, 2015. Additionally, we paid transaction costs of $3.8 million due to the 2015 Refinancing.

Principal Uses of Cash. Our management anticipates that the principal uses of cash during the twelve month period ending September 30, 2016 will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, principal and interest of $39.7 million under the 2015 credit facilities, and such additional principal payments made from excess cash flows, as may become due under the 2015 Term Loan. We believe that cash on hand, cash generated by operations, and borrowing available under our 2015 credit facility, will be sufficient to fund our operations and enable us to meet our liquidity needs through September 30, 2016.

2015 Credit Agreement. On June 25, 2015 we entered into the 2015 Credit Agreement. The 2015 Credit Agreement provides for the 2015 Term Loan and the 2015 Revolver. The 2015 Credit Agreement also provides for the issuance of letters of credit and the provision of swingline loans under the 2015 Revolver, subject to a $15.0 million sublimit for letters of credit and a $5.0 million sublimit for swingline loans. Our subsidiaries (the Guarantors) have guaranteed our obligations under the 2015 Credit Agreement. The 2015 Credit Agreement is collateralized by a first priority interest in substantially all of the present and future assets of us and the Guarantors, other than interests in the Hallmark trademarks and associated rights.

We borrowed $80.0 million under the 2015 Term Loan on June 25, 2015, and the remaining $245.0 million on July 24, 2015, to fund the redemption of the Notes.

We are required to make prepayments under the 2015 Term Loan in amounts equal to (1) 50% of excess cash flow (as defined in the 2015 Credit Agreement) for the six months ending December 31, 2015, and for each year thereafter, which percentage will be reduced to 25% if the Consolidated Leverage Ratio is equal to or less than 3.00 to 1.00 but greater than 2.00 to 1.00, and 0% if the Consolidated Leverage ratio is equal to or less than 2.00 to 1; (2) 100% of net cash proceeds of dispositions or casualty events if we have not invested such proceeds within one year after the occurrence of the disposition or casualty event; and (3) 100% of net cash proceeds from the issuance of indebtedness not otherwise permitted by the 2015 Credit Agreement.

The covenants in the 2015 Credit Agreement limit our ability and certain of our subsidiaries to, among other things: (1) incur indebtedness; (2) create or permit liens on assets; (3) pay certain dividends or make certain stock repurchases and redemptions and other restricted payments; (4) make certain investments; (5) prepay indebtedness; (6) enter into certain transactions with affiliates; (7) dispose of assets; (8) merge or consolidate; (9) enter into new unrelated lines of business; and (10) enter into sale and leaseback transactions. The 2015 Credit Agreement also requires compliance by us with a Consolidated Leverage Ratio test and a Consolidated Secured Leverage Ratio (as defined in the 2015 Credit Agreement) test.

We used the proceeds of the 2015 Term Loan to (1) repay amounts due under the 2011 Credit Agreement, (2) pay fees, commissions and expenses in connection with the 2015 Credit Agreement, and (3) pay certain other fees and costs. The proceeds of the 2015 Term Loan funded after the effective date of the 2015 Credit Agreement were used to fund the redemption of our Notes. We used the proceeds of borrowings under the 2015 Revolver for general corporate purposes.

Redemption of Notes. On July 24, 2015, the Company redeemed $271.5 million in principal amount of Notes (representing 100% of the outstanding Notes) for a price of $285.8 million (representing a redemption price of 105.25% of the principal amount, plus accrued and unpaid interest).

Risk Factors and Forward-Looking Statements

The discussion set forth in this Quarterly Report on Form 10-Q contains statements concerning potential future events. Such forward-looking statements are based on assumptions by our management, as of the date of this Quarterly Report on Form 10-Q, including assumptions about risks and uncertainties we face. Readers can identify these forward-looking statements by their use of such verbs as expects, anticipates, believes, plans or similar verbs or conjugations of such verbs. If any of our assumptions prove incorrect or should unanticipated circumstances arise, our actual results, levels of activity, performance, or achievements could differ materially from those anticipated by such forward-looking statements.

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Among the factors that could cause actual results to differ materially are those discussed in our filings with the SEC, including the risk factors stated in our Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent Quarterly Reports on Form 10-Q. Such risk factors include, but are not limited to, the following: competition for distribution of networks, viewers, advertisers and the acquisition of programming; fluctuations in the availability of programming; our ability to renew our distribution agreements on favorable terms; our ability to protect our rights to intellectual property; fluctuations in demand for programming which we air on our Networks; our ability to address our liquidity needs; and our substantial indebtedness affecting our financial condition and results.

Our use of certain hedging techniques may expose us to counterparty risks.

If an interest rate swap counterparty cannot perform under the terms of the interest rate swap, we may not receive payments due under that swap, and thus, we may lose any unrealized gain associated with the interest rate swap. The hedged liability could cease to be hedged by the interest rate swap. Additionally, we may also risk the loss of any collateral we may be required to pledge to secure our obligations under the interest rate swap if the counterparty becomes insolvent or files for bankruptcy. If we are required to sell our derivatives under these circumstances, we may incur losses.

Available Information

Our principal executive offices are located at 12700 Ventura Boulevard, Studio City, California 91604 and our telephone number is (818) 755 2400. We will make available free of charge through our website, www.hallmarkchannel.com, the 2014 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to such reports, as soon as reasonably practicable after we electronically file or furnish such material with the SEC.

The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1 800 SEC 0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Additionally, we will make available, free of charge upon request, a copy of our Code of Business Conduct and Ethics, which is applicable to all of our employees, including our senior financial officers. Our code is available through our website. Copies may be requested by contacting our General Counsel at 12700 Ventura Boulevard, Studio City, California 91604.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

As of September 30, 2015, our cash had a fair value of $70.5 million. The primary purpose of our investing activities has been to preserve principal until the cash is required to fund operations. Consequently, the size of this portfolio fluctuated significantly as cash was provided by and used in our business.

We have not used derivative financial instruments for speculative purposes.

We are exposed to market risk.

We are exposed to market risk, including changes to interest rates. To reduce the volatility relating to these exposures, we may enter into various derivative investment transactions in the near term pursuant to our investment and risk management policies and procedures in areas such as hedging and counterparty exposure practices. We have not used derivatives for speculative purposes.

If we use risk management control policies, there will be inherent risks that may only be partially offset by our hedging programs should there be any unfavorable movements in interest rates or equity investment prices.

The estimated exposure discussed below is intended to measure the maximum amount we could lose from adverse market movements in interest rates and equity investment prices, given a specified confidence level, over a given period of time. Loss is defined in the value at risk estimation as fair market value loss.

We are exposed to foreign currency exchange risk.

We have foreign currency risks related to our programming costs denominated in currencies other than the U.S. dollar, primarily the Canadian dollar. Changes in exchange rates, and in particular a weakening of the U.S. dollar, will negatively affect our operating results as expressed in U.S. dollars.

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We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than our functional currency. We recognized foreign currency losses of $84,000 and $94,000 during the three and nine month periods ended September 30, 2015. At this time we have not entered, but in the future we may enter, into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities would have on our results of operations.

Our interest income and expense is subject to fluctuations in interest rates.

We are exposed to market risks from fluctuations in interest rates from time to time. The objective of our financial risk management is to reduce the potential negative impact of interest rate fluctuations to acceptable levels. We do not acquire market risk sensitive instruments for trading purposes.

We manage interest rate risk through the use of an interest rate swap that fixes $200.0 million of our variable-rate long-term debt. This swap limits the interest rate risk through the use of a cash flow hedge. At September 30, 2015, a decline in interest rates in the future will not generally benefit us with respect the fixed rate debt.

We have $150.0 million of variable-rate debt at September 30, 2015. A hypothetical increase in LIBOR by 1% point would increase our annual interest rate expense on $125.0 million of 2015 Term Loan and $25.0 million of 2015 Revolver by approximately $1.5 million as of September 30, 2015.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the next twelve months, our estimate is that an additional $2.3 million will be reclassified as an increase to interest expense.

Our material liability subject to interest rate risk consisted of our 2015 Term Loan, our 2015 Revolver and our interest rate swap. The balance of these liabilities was $350.6 million, or 70% of total liabilities, as of September 30, 2015. Total net interest expense for the nine months ended September 30, 2015, was $22.0 million, 7%, of our total revenue. Our net interest expense for the 2015 Term Loan and 2015 Revolver are sensitive to changes in the general level of interest rates, primarily U.S. LIBOR interest rates. In this regard, changes in U.S. LIBOR interest rates affect the fair value of interest bearing liabilities.

Item 4. ***Controls and Procedures.***

a. Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15e and 15d-15e under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

b. Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1A. Risk Factors

You should carefully consider the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and our subsequent Quarterly Report on Form 10-Q, as we have updated such risk factors by the filing with the SEC of subsequent periodic and current reports from time to time, which factors could materially affect our business, financial condition, or future results. Such risks, however, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or reporting results.

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Item 6. ***Exhibits***

INDEX TO EXHIBITS

Exhibit Number	Exhibit Title
3.1	Amended and Restated By-Laws (previously filed as Exhibit 3.2 to our Registration Statement on Form S-1/A (Amendment No. 3), Commission File No. 333-95573, and incorporated herein by reference).
3.2	Second Amended and Restated Certificate of Incorporation of Crown Media Holdings, Inc. (previously filed as Exhibit 3.1 to our Current Report on Form 8-K filed on March 1, 2010 and incorporated herein by reference).
3.3	Certificate of Designation, Powers, Preferences, Qualifications, Limitations, Restrictions and Relative Rights of Series A Convertible Preferred Stock of Crown Media Holdings, Inc. (previously filed as Exhibit 3.2 to our Current Report on Form 8-K filed on March 1, 2010 and incorporated herein by reference).
3.4	Third Amended and Restated Certificate of Incorporation of Crown Media Holdings, Inc. (previously filed as Exhibit 3.3 to our Current Report on Form 8-K filed on March 1, 2010 and incorporated herein by reference).
31.1	Rule 13a-14(a) Certification executed by the Company s Chief Executive Officer.
31.2	Rule 13a-14(a) Certification executed by the Company s Executive Vice President and Chief Financial Officer.
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	Taxonomy Extension Calculation Linkbase Document
101. DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Management contract or compensating plan or arrangement.

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SIGNATURES

Pursuant to the requirements 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.

CROWN MEDIA HOLDINGS, INC.

	Signature	Title	Date
By:	/s/ WILLIAM J. ABBOTT William J. Abbott	Principal Executive Officer	November 2, 2015
By:	/s/ ANDREW ROOKE Andrew Rooke	Principal Financial and Accounting Officer	November 2, 2015

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