CROWN MEDIA HOLDINGS INC
Form 10-Q
May 03, 2016
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.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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	84-1524410
(State or other jurisdiction of incorporation or organization)	(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 No

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 No

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 Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)   Smaller reporting company

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

As of May 1, 2016, 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 Crow 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, $0.01 par value per share, 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.

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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, formerly known as Hallmark Movie Channel.
HCC	H C Crown, LLC, formerly H C Crown Corp., a subsidiary of Hallmark Cards and our immediate parent.
Indenture	The Indenture, dated as of July 14, 2011, by and 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 issued on July 14, 2011, 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, 2015	As of March 31, 2016
ASSETS		
Cash and cash equivalents	$ 50,604	$ 117,345
Accounts receivable, less allowance for doubtful accounts of $251 and $420, respectively	155,813	124,481
Programming rights	108,000	105,432
Prepaid programming rights	—	388
Prepaid and other assets	4,109	3,988
Total current assets	318,526	351,634
Long-term receivable	293	426
Programming rights	272,016	289,412
Prepaid programming rights	23,947	21,796
Property and equipment, net	8,588	8,193
Deferred tax assets, net	146,180	131,064
Debt issuance costs, net	805	760
Prepaid and other assets	3,749	6,840
Goodwill	314,033	314,033
Total assets	$ 1,088,137	$ 1,124,158
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and accrued liabilities	$ 30,920	$ 22,648
Audience deficiency reserve liability	10,928	11,173
Programming rights payable	73,654	71,260
Payables to Hallmark Cards affiliates	353	658
Interest payable	1,266	1,394
Current maturities of long-term debt	12,188	16,250
Total current liabilities	129,309	123,383
Accrued liabilities	19,399	22,696

Programming rights payable	48,909	58,687
Derivative liability	735	5,145
Long-term debt, net of current maturities	310,222	306,372
Total liabilities	508,574	516,283
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Class A common stock, $.01 par value; 500,000,000 shares authorized; 359,675,936 shares issued and outstanding as of both December 31, 2015 and March 31, 2016	3,597	3,597
Paid-in capital	2,062,818	2,062,818
Accumulated comprehensive loss	(158)	(3,012)
Accumulated deficit	(1,486,694)	(1,455,528)
Total stockholders' equity	579,563	607,875
Total liabilities and stockholders' equity	$ 1,088,137	$ 1,124,158

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

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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 March 31,	
	2015	2016
Revenue:		
Advertising	$ 78,378	$ 100,763
Advertising by Hallmark Cards	759	—
Subscriber fees	20,896	21,736
Other revenue	479	1,724
Total revenue, net	100,512	124,223
Cost of Services:		
Programming costs		
Non-affiliates	33,818	40,725
Hallmark Cards affiliate	940	762
Other costs of services	4,455	5,491
Total cost of services	39,213	46,978
Selling, general and administrative expense (exclusive of depreciation and amortization expense shown separately below)	17,572	19,423
Marketing expense	4,608	4,675
Depreciation and amortization expense	679	856
Income from continuing operations before interest and income tax expense	38,440	52,291
Interest income	48	18
Interest expense	(9,137)	(3,024)
Income before income tax expense	29,351	49,285
Income tax expense	(10,845)	(18,119)
Net income	$ 18,506	$ 31,166
Other comprehensive income (loss):		
Unrealized loss on derivatives, net of tax	—	(2,854)
Comprehensive income (loss)	$ 18,506	$ 28,312
Weighted average number of shares of common stock outstanding, basic and diluted	359,676	359,676
Net income per share from operations, basic and diluted	$ 0.05	$ 0.09

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)

	Three Months Ended March 31,	
	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,506	$ 31,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,515	43,362
Provision for allowance for doubtful accounts	130	963
Loss on sale of property and equipment	8	—
Deferred tax expense	10,251	16,771
Changes in operating assets and liabilities:		
Decrease in accounts receivable	18,507	31,043
Additions to programming rights	(55,254)	(56,316)
Decrease (increase) in prepaid and other assets	1,995	(2,015)
Decrease in accounts payable, accrued and other liabilities	(4,945)	(4,827)
(Decrease) increase in interest payable	(7,174)	109
Decrease in derivative payable	—	(99)
Increase in programming rights payable	5,370	7,385
Decrease in payables to Hallmark Cards affiliates	—	(6)
Net cash provided by operating activities	23,909	67,536
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(201)	(416)
Proceeds from disposal of property and equipment	5	—
Net cash used in investing activities	(196)	(416)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on the 2011 Term Loan	(20,000)	—
Principal payments on capital lease obligations	(347)	(379)
Net cash used in financing activities	(20,347)	(379)
Net increase in cash and cash equivalents	3,366	66,741
Cash and cash equivalents, beginning of year	60,888	50,604
Cash and cash equivalents, end of year	$ 64,254	$ 117,345
Supplemental disclosure of cash and non-cash activities:		
Interest paid	$ 15,815	$ 2,679
Taxes paid	$ 109	$ —
Capital expenditures included in accounts payable	$ 137	$ 3

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 Months Ended March 31, 2015 and 2016

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 indirect wholly-owned subsidiary CM Merger Co.

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, 2015.

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, 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.

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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 $130,000 and $963,000 for the three months ended March 31, 2015 and 2016, respectively.

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 $982,000 and $727,000 in barter advertising revenue during the three months ended March 31, 2015 and 2016, respectively. The Company recognized $881,000 and $631,000 in barter expense included in programming costs on the unaudited condensed consolidated statements of operations and comprehensive income (loss) during the three months ended March 31, 2015 and 2016, 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, 2015 and March 31, 2016, are $3.1 million and $2.5 million, respectively, of deferred revenue. Further, $6.0 million and $8.5 million, respectively, are included in the long-term portion of accrued liabilities as of December 31, 2015 and March 31, 2016.

Transaction Costs

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.

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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.

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 Adjustments

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. No translation adjustment income was recorded for the three months ended March 31, 2015. Translation adjustment income of $183,000 has been recorded for the three months ended March 31, 2016.

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 three of the Company's distributors individually accounted for more than 10% of the Company's consolidated subscriber revenue and collectively accounted for 87% and 54% of the Company's consolidated subscriber revenue during the three months ended March 31, 2015 and 2016, 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 43% of the Company's subscribers during each of the three months ended March 31, 2015 and 2016. The loss of one of these distributors could have a significant impact on the Company's operations.

Four and two 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 67% and 48% of the consolidated programming rights payable as of March 31, 2015 and 2016, 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 recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity

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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 February 2016, the FASB issued its final lease accounting standard, FASB Accounting Standard Codification ("ASC") Topic 842, Leases, which requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The company is in the process of evaluating the effect that ASC 842 will have on its consolidated financial statements and related disclosures. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented.

Reclassification of Prior Year Presentation

Certain prior period amounts have been reclassified to conform to the current period presentation.

3. Programming Rights

Programming rights are comprised of the following:

	As of December 31, 2015	As of March 31, 2016
	(In thousands)	
Programming rights — non-affiliates		
Acquired programming		
Licensed for less than 12 years	$ 292,990	$ 317,248
Original programming		
Licensed for less than 12 years	250,189	249,668
Licensed for 12 years or longer	118,717	136,547
Owned	83,140	92,988
Programming rights— Hallmark Cards affiliates		

Licensed for less than 12 years	28,334	28,334
Programming rights, at cost	773,370	824,785
Accumulated amortization	(398,582)	(435,398)
Programming rights available for broadcast	374,788	389,387
Owned programming in development	5,228	5,457
Programming rights, net	$ 380,016	$ 394,844

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 March 31, 2015 and 2016, no such changes in estimates resulted in additional amortization of programming rights.

At December 31, 2015 and March 31, 2016, $24.0 million and $22.2 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.

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Programming rights payable are comprised of the following:

	As of December 31, 2015	As of March 31, 2016
	(In thousands)	
Programming rights payable — non-affiliates		
Acquired programming	$ 94,201	$ 105,071
Original programming	14,719	11,922
Programming rights payable — Hallmark Cards affiliates	13,643	12,954
Total programming rights payable	122,563	129,947
Less current maturities	(73,654)	(71,260)
Long-term programming rights payable	$ 48,909	$ 58,687

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. The adjusted LIBO rate is based on the three month LIBOR.

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;

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(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 March 31, 2016.

At December 31, 2015, the outstanding balance under the 2015 Term Loan, net of unamortized transaction costs of $2.6 million, was $322.4 million. At March 31, 2016, the outstanding balance under the 2015 Term Loan, net of unamortized transaction costs of $2.4 million, was $322.6 million. The Company made an interest payment of $1.8 million under the 2015 Term Loan during the three months ended March 31, 2016.

Interest expense under the 2015 Term Loan was $2.1 million for the three months ended March 31, 2016. The effective interest rate was approximately 2.63% during the three months ended March 31, 2016. The weighted average nominal interest rate was approximately 2.34% during the three months ended March 31, 2016.

The 2015 Revolver was not in place during the three months ended March 31, 2015. Commitment fee expense for the three month periods ended March 31, 2016, was $75,000.

At both December 31, 2015 and March 31, 2016, one letter of credit in the amount of $909,000 was outstanding.

2011 Credit Facility

Pursuant to the 2011 Credit Agreement, the Company entered into the 2011 Term Loan and the 2011 Revolver.

The Company made principal payments of $20.0 million under the 2011 Term Loan during the three months ended March 31, 2015.

Interest expense under the 2011 Term Loan was $1.5 million for the three months ended March 31, 2015. The effective interest rate was approximately 5.25% during the three months ended March 31, 2015. The weighted average nominal interest rate was approximately 4.05% during the three months ended March 31, 2015.

Interest expense under the 2011 Revolver for the three months ended March 31, 2015 was $0.

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 March 31, 2015, was $37,000.

The Notes

Interest expense under the Notes was $7.3 million for the three months ended March 31, 2015. After giving effect to the amortization of associated debt issuance costs, the effective interest rate of the Notes was approximately 11.0% during the three months ended March 31, 2015.

Debt Service Requirements

Debt service requirements, including estimated future interest and premium, for each of the five years subsequent to March 31, 2016 and the period thereafter, are as follows:

	Payments Due by Period					
	Total	Year 1	Year 2	Year 3	Year 4	Year 5
	(In thousands)					
Term Loan, due June 25, 2020	$ 355,702	$ 23,982	$ 23,608	$ 31,295	$ 38,826	$ 237,991

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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 both December 31, 2015 and March 31, 2016, 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 1.6775% 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 as a qualifying cash flow hedge.

The Company did not have any settlements for the three months ended March 31, 2015. The Company paid interest under the swap agreement of $658,000 during the three months ended March 31, 2016.

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 both December 31, 2015 and 2016, the Company did not have any derivatives outstanding that were not designated in hedge accounting relationships.

During the next twelve months, the Company estimates that $1.5 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 December 31, 2015 and March 31, 2016:

	As of December 31, 2015 Derivative Liability		As of March 31, 2016 Derivative Liability	
	Balance Sheet Location	Fair Value (in thousands)	Balance Sheet Location	Fair Value (in thousands)
Interest rate swap designated as a hedging instrument	Derivative Payable	$ 735	Derivative Payable	$ 5,145

The unrealized loss on derivatives is recorded net of a tax benefit of $93,000 for the year ended December 31, 2015 and $1.7 million for the three months ended March 31, 2016.

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Credit Risk-Related Contingent Features

The Company has an agreement with its derivative counterparty that contains a provision pursuant to which defaults by the Company, including defaults where repayment of the indebtedness has not been accelerated by the lender, could also be declared as defaults under the Company's derivative obligations.

As of December 31, 2015, and March 31, 2016, 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 $735,000 and $5.1 million, respectively. As of December 31, 2015 and March 31, 2016, the Company has posted no collateral related to this agreement. If the Company had breached any of these provisions at December 31, 2015 and March 31, 2016, it could have been required to settle its obligation under the agreement at its termination value of $735,000 and $5.1 million, respectively.

Changes in Accumulated Other Comprehensive Loss

The following table reflects the changes in accumulated other comprehensive loss for the year ended December 31, 2015 and the three months ended March 31, 2016, net of tax:

		(Losses) Gains on Cash Flow Hedges (In thousands)
Accumulated other comprehensive loss:		
Balance at December 31, 2014	$	—
Other comprehensive loss before reclassifications, net of tax		(808)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		650
Unrealized loss on derivatives, net of tax, balance at December 31, 2015		(158)
Other comprehensive loss before reclassifications, net of tax		(3,212)
Amounts reclassified from accumulated other comprehensive loss to interest expense, net of tax		358
Unrealized loss on derivatives, net of tax		(2,854)
Balance at March 31, 2016	$	(3,012)

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, 2015 and March 31, 2016.

	December 31, 2015		March 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Interest rate swap (Level 2)	$ 735	$ 735	$ 5,145	$ 5,145
2015 Term Loan and interest payable (Level 3)	323,675	325,500	324,016	326,462

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 interest rate swap using the trading prices obtained from Bloomberg on December 31, 2015 and March 31, 2016, a Level 2 input. The Company estimated the fair value of its 2015 Term Loan using a yield-to-maturity rate obtained from a pricing service, a Level 3 input.

At December 31, 2015 and March 31, 2016, the fair values of the Level 3 financial instruments were $325.5 million and $326.5 million, respectively. No transfers between levels occurred during 2015 and 2016.

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Accounts payable and accrued liabilities and receivables 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

For the tax year ended December 31, 2015, it is estimated that the Company will owe Hallmark Cards approximately $358,000 with respect to the state tax sharing agreement, which will be paid during 2016 two days prior to the due date of the state tax returns. At March 31, 2016, it is estimated that the Company will owe Hallmark Cards approximately $221,000 with respect to a state tax sharing agreement for the three months ended March 31, 2016, which will be paid during 2017 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.

Canadian Funds

During 2015, Hallmark Cards paid $6.7 million of Canadian film costs on our behalf which we reimbursed during the same period. Additionally, we purchased $8.8 million of Canadian dollars from Hallmark Cards during 2015 at market rates.

During the three months ended March 31, 2015, Hallmark Cards paid $3.8 million of Canadian film costs on our behalf which we reimbursed. During the three months ended March 31, 2016, we purchased $3.6 million of Canadian dollars from Hallmark Cards at market rates.

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 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 $389,000 for 2015 and are expected to be $426,000 for 2016.

At December 31, 2015 and March 31, 2016, the Company's payables to Hallmark Cards affiliates in the accompanying consolidated balance sheets were $353,000 and $658,000, respectively. The December 31, 2015 balance was comprised of $346,000 of taxes and $7,000 of invoices paid on the Company's behalf. The March 31, 2016 balance was comprised of taxes.

"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.

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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 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 December 31, 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. As of December 31, 2015, this movie has aired on Hallmark Channel.

In February 2016, the Company entered into a new agreement with Hallmark Cards, pursuant to which the Company will become the producer and premier broadcaster of the Hallmark Hall of Fame television series. Hallmark Cards will continue to sponsor the series and will remain involved in the creative process, including approving scripts that build upon the series’ reputation for movies that entertain, enlighten and inspire. The Company would be obligated to produce two movies per year, one for Christmas and one for Valentine’s Day.

Northpole Licensing Agreements

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 by Hallmark Channel based on Hallmark Cards’ intellectual property.

The Company has produced Northpole: Open for Christmas, a Hallmark Channel original holiday movie, which premiered 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.

Sublease Agreement

During the first quarter of 2016, the Company entered into a sublease agreement with Hallmark Cards for additional Studio City, California, office space. The lease will commence on May 1, 2016 and terminate on January 31, 2017. Future minimum lease payments under the agreement are $102,000 for 5,681 square feet.

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.

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The Company is not required to pay any royalty fees under the trademark license agreement. Accordingly, no amounts have been reflected in the accompanying consolidated balance sheets or 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

As a result of the Federal Tax Deconsolidation in 2012, the Company files a separate-company federal tax return. For 2013, 2014 and 2015, the Company generated federal and state taxable income for both regular tax and alternative minimum tax ("AMT") purposes. For regular tax purposes, this income will be fully offset by net operating loss carryforwards. However, for federal AMT purposes, loss carryforwards used to offset the AMT income are subject to a 90% limitation.

During the three months ended March 31, 2015 and 2016, the Company paid AMT of $61,000 and $0, respectively. During the three months ended March 31, 2015 and 2016, the Company recognized AMT of $594,000 and $1.0 million, respectively, and these amounts are included as components of accrued liabilities on the accompanying unaudited condensed consolidated balance sheets.

At December 31, 2015, the Company had federal NOLs of $305.0 million and various state NOLs. The Company maintains a $2.3 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 2020 and 2021, and the state NOLs will expire between 2016 and 2032.

At both December 31, 2015, and March 31, 2016, the Company did not have any unrecognized tax benefits for uncertain tax positions. The Company recognized no increase or decrease in the amount of unrecognized tax benefits for uncertain tax positions. Accordingly, at both December 31, 2015, and March 31, 2016, there is no accrued interest related to uncertain tax positions.

By virtue of its inclusion in Hallmark Cards consolidated tax returns, the Company is subject to examination by the Internal Revenue Service for periods subsequent to March 10, 2003, and prior to the Federal Tax Deconsolidation.

The Internal Revenue Service audited the Hallmark Cards consolidated tax returns for 2010 through 2013. The separate tax returns of the Company from November 1 through December 31, 2012, 2013, 2014 through 2015 are also subject to examination by the Internal Revenue Service. Further, net operating loss carry forwards 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. The amount subject to disallowance is limited to the NOL utilized. Accordingly, the Company is subject to examination for SRLY NOLs generated prior to March 11, 2003, as such NOLs are utilized.

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 2016, 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 2013 through 2016, the Performance Award constituted 60% of the award and the Employment Award constituted 40% of the award. The 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 (earnings before interest and taxes) over a three year performance period.

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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
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	2/26/2016	1,308	2/26/2016	2,457
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	—
3/1/2016	20,000	797,000	12/31/2018	12/31/2018	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	2/26/2016	294,000
3/1/2014	50,000	12/31/2016	N/A	—
3/1/2015	50,000	12/31/2017	N/A	—
3/1/2016	50,000	12/31/2018	N/A	—

Vesting

Vesting of the 2013, 2014, 2015 and 2016 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 $872,000 million and $1.4 million among selling, general and administrative expense for the three months ended March 31, 2015 and 2016, respectively. Additionally, the $8.2 million and $5.5 million liabilities for these agreements were included in accounts payable and accrued liabilities in the accompanying unaudited condensed consolidated balance sheets at December 31, 2015, and March 31, 2016, 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.

11. Subsequent Events

On May 2, 2016, Hallmark Cards completed a short-form merger of Crown Media Holdings with CM Merger Co., an indirect wholly-owned subsidiary of Hallmark Cards, pursuant to Section 253 of the Delaware General Corporation Law. Following the Merger, the Company became a wholly-owned indirect subsidiary of Hallmark Cards. Trading on The Nasdaq Stock Market has been suspended and the Company is being delisted from The Nasdaq Stock Market and deregistered with the Securities and Exchange Commission.

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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

Recent Developments

On March 8, 2016, Hallmark Cards announced that it intended to take action to complete a short-form merger (the "Merger") of Crown Media Holdings with CM Merger Co., an indirect wholly-owned subsidiary of Hallmark Cards, pursuant to Section 253 of the Delaware General Corporation Law (the "DGCL"). Following the Merger, which was completed on May 2, 2016:

- we, as the survivor, became a wholly-owned indirect subsidiary of Hallmark Cards;
- each share of our Common Stock not owned by Hallmark Cards was automatically converted into the right to receive $5.05 in cash, without interest, except for those shares for which statutory appraisal rights are properly exercised;
- our Common Stock is being delisted from The Nasdaq Stock Market and deregistered with the SEC; and
- once our Common Stock has been deregistered, we will no longer be required to file annual, quarterly or other reports with the SEC.

Since CM Merger Co. owned 90.3% of our outstanding Common Stock at the time of the Merger, Hallmark Cards had the ownership required under DGCL to unilaterally complete the Merger. Under DGCL, no action was, or is, required by our board of directors or our stockholders, other than Hallmark Cards, for the Merger to become effective. Our board of directors did not take action to approve or disapprove the Merger, nor were our stockholders asked to approve or disapprove the Merger or furnish a proxy in connection with the Merger.

Current Business

We own and operate two pay television Networks, Hallmark Channel and Hallmark Movies and Mysteries, each of which is dedicated to high-quality entertainment programming for families and an attractive outlet for advertisers seeking to target our viewers. 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.

Hallmark Channel features popular television series such as Golden Girls, The Middle and Frasier, as well as original television series such as When Calls the Heart and Good Witch, and movies with compelling stories and internationally recognized stars. It also features “lifestyle” programming with the two hour weekday series, Home and Family.

We rebranded Hallmark Movie Channel to Hallmark Movies and Mysteries in September 2014 to give this Network a distinctly different identity and programming lineup than that of Hallmark Channel. Prior to the rebranding, Hallmark Movie Channel offered original movies, classic theatrical films and movies from the award winning Hallmark Hall of Fame collection. While we continue to air the Hall of Fame collection and content previously provided under Hallmark Movie Channel, Hallmark Movies and Mysteries emphasizes programming of the mystery genre, including original movies, movie franchises and series.

Programming acquired from third parties is an important component of the programming for 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 established Crown Media Productions, LLC (“Crown Media Productions”) in 2015 as our in-house production company and plan to increase the production of original content for multiple platforms. During 2015, our Networks premiered seven movies produced by Crown Media Productions for which we funded all production costs, owned all worldwide rights and fully controlled the creative and production process. These movies, along with the many other original movies and series which we have previously commissioned and to which we hold exclusive United States rights in all media, are valuable assets for us.

Hallmark Channel and Hallmark Movies and Mysteries are currently distributed to approximately 91% and 65%, respectively, of all United States pay television subscribers. We currently distribute (a) Hallmark Channel through approximately 5,217 cable, satellite and other pay television distribution systems and (b) Hallmark Movies and Mysteries through approximately 4,013 of such systems.

Three of our distributors each accounted for more than 10%, and together accounted for a total of 54% of our consolidated subscriber revenue for the three months ended March 31, 2016. Two of our distributors each accounted for approximately 15% or more of our consolidated subscribers for the three months ended March 31, 2016, and together accounted for 43% of our consolidated subscribers on that date. Two of our programming content providers each accounted for more than 10% of our total programming rights payable for the three months ended March 31, 2016, and together accounted for a total of 48% 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 the number of our Hallmark Channel and Hallmark Movies and Mysteries subscribers from subscriber numbers reported by Nielsen.

We license the trademark “Hallmark” for use on our Networks pursuant to trademark license agreements from 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, 2015 and 2016, 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.

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Advertising Revenue

During the three months ended March 31, 2016, CPMs for commitments in the 2015/2016 Scatter Market for Hallmark Channel were 52% greater than the CPMs for commitments during the 2015/2016 Upfront Season and were 16% higher than achieved during the three months ended March 31, 2015 during 2014/2015 Scatter Market.

During the three months ended March 31, 2016, CPMs for commitments in the 2015/2016 Scatter Market for Hallmark Movies and Mysteries were 56% greater than the CPMs for commitments during the 2015/2016 Upfront Season and 16% higher than achieved during the three months ended March 31, 2015, during the 2015 Scatter Market.

The Scatter Marketplace was strong, with volume up significantly on both Networks, along with CPM growth.

Our direct response rates for Hallmark Channel during the three months ended March 31, 2016 were 16% higher than those during the three months ended March 31, 2015. Our direct response rates for Hallmark Movies and Mysteries during the three months ended March 31, 2016 were 41% higher than those during the three months ended March 31, 2015. 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% 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 March 31, 2015 and 2016, Hallmark Channel experienced cancellation rates of approximately 7% and 4%, respectively. During the three months ended March 31, 2015 and 2016, Hallmark Movies and Mysteries experienced cancellation rates of approximately 3% and approximately 1%, respectively.

Distribution Agreements

Distribution agreements with multiple systems operators are important because 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 September 2017 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), “cord shavers” (i.e., viewers scaling back the cost of traditional cable packages by opting for less expensive packages) and “cord nevers” (i.e., people who have never subscribed to a traditional pay television service).

The universe of cable and satellite TV subscribers in the United States is approximately 99.0 million homes. The top 25 cable TV networks in the United States, measured by the number of subscribers, have 90.7 million or more subscribers. It is a mature market with relatively high penetration. According to Nielsen, in March 2016, Hallmark

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Channel and Hallmark Movies and Mysteries were distributed to 89.7 million subscribers and 64.5 million subscribers, respectively.

In July 2015, the Company and AT&T launched Hallmark Channel and Hallmark Movies and Mysteries on AT&T U-verse, 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.

We believe that the key 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 58.6 and 58.0 for the three months ended March 31, 2015 and 2016, respectively. The average viewing age for Hallmark Movies and Mysteries was 66.0 and 64.9 for the first quarters ended March 31, 2015 and 2016, respectively. In order to achieve our revenue goals, we need to draw in our target audience.

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 and almost always include our commitment to deliver a specified number of viewers in a particular demographic. 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 based on guaranteed demographic delivery. 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.

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. Our Networks currently 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.

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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 distribution contract and other commercial terms.

We are in continuous negotiations with our existing distributors to have our Networks placed in packages with the greatest number of subscribers, thereby increasing our subscriber base and enhancing our opportunities to generate advertising 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 on an individual basis.

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, 2015.

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

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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, 2015 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 months ended March 31, 2015 and 2016, 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 March 31, 2015	2016	Percent Change
Revenue:			
Advertising	$ 79,137	$ 100,763	27 %
Subscriber fees	20,896	21,736	4 %
Other revenue	479	1,724	260 %
Total revenue	100,512	124,223	24 %
Cost of Services:			
Programming costs	34,758	41,487	19 %
Operating costs	4,455	5,491	23 %
Total cost of services	39,213	46,978	20 %
Selling, general and administrative expense	18,251	20,279	11 %
Marketing expense	4,608	4,675	1 %
Income before interest and income tax expense	38,440	52,291	36 %
Interest expense	(9,089)	(3,006)	(67) %
Income before income tax expense	29,351	49,285	68 %
Income tax expense	(10,845)	(18,119)	67 %
Net income	$ 18,506	$ 31,166	68 %
Cash Flow Data:			
Net cash provided by operating activities	$ 23,909	$ 67,536	182 %
Net cash used in investing activities	$ (196)	$ (416)	112 %
Net cash used in financing activities	$ (20,347)	$ (379)	(98) %
Other Data (Unaudited):			
HC day household ratings(1)(3)(4)	0.5	0.5	3 %
HC primetime household ratings(2)(3)(4)	0.7	0.7	(3) %
HMM day household ratings(1)(3)(4)	0.4	0.5	14 %

HMM primetime household ratings(2)(3)(4)	0.5	0.6	15	%
HC day W25-54 ratings(1)(3)(4)	0.3	0.3	(0)	%
HC primetime W25-54 ratings(2)(3)(4)	0.3	0.4	7	%
HMM day W25-54 ratings(1)(3)(4)	0.1	0.2	45	%
HMM primetime W25-54 ratings(2)(3)(4)	0.2	0.2	34	%
HC subscribers at year end(4)	85,071	89,699	5	%
HMM subscribers at year end(4)	56,014	64,492	15	%

(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 December 29, 2014 through March 29, 2015, compared to December 27, 2015 through March 27, 2016.

(4) “HC” represents Hallmark Channel and “HMM” represents Hallmark Movies & Mysteries. Ratings and subscribers are reported by The Nielsen Company.

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Results of Operations

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2016

Revenue. Our revenue from continuing operations, comprised primarily of advertising and subscriber fees, increased $23.7 million or 24% from the first quarter of 2015 to the first quarter of 2016.

The $21.6 million or 27% 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 $19.0 million and $29.6 million for the three months ended March 31, 2015 and 2016, respectively.

Our subscriber fee revenue increased $840,000 or 4% due to revenue from AT&T. Other revenue increased $1.2 million from the first quarter of 2015 to the first quarter of 2016. During the first quarter of 2016, we recorded $1.2 million of revenue from a licensing agreement with Netflix.

Cost of services. Cost of services as a percent of revenue decreased from 39% during the three months ended March 31, 2015, to 38% during the three months ended March 31, 2016. This decrease results primarily from the effect of the 27% increase in advertising revenue discussed above offset, in part, by the 19% increase in programming costs discussed below.

Programming costs increased $6.7 million or 19%, from the three months ended March 31, 2015, to the three months ended March 31, 2016, primarily due to the higher costs associated with syndicated series and the production of the current season of Home & Family. Operating costs increased $1.0 million from the three months ended March 31, 2015, to the three months ended March 31, 2016, due to increases of $378,000 in employee costs and $616,000 increases in residuals expense.

Selling, general and administrative expense. Our selling, general and administrative expense increased $2.0 million from the three months ended March 31, 2015, to the three months ended March 31, 2016, primarily due to an 11% increase in employee costs and other nominal increases. Additionally, bad debt expense increased from $130,000 during the first quarter of 2015 to $963,000 during the first quarter of 2016 primarily due to financial difficulties experienced by certain of our advertisers.

Interest expense. Interest expense decreased $6.1 million from the three months ended March 31, 2015 to the three months ended March 31, 2016, due to lower rates on the new credit facility.

Income tax provision. Provision for income tax of $10.8 million and $18.1 million reflect corresponding effective tax rates of 36.9% and 36.8% for the three months ended March 31, 2015 and 2016, 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. For the three months ended March 31, 2015, our cash provided by operating activities was $23.9 million as compared to $67.5 million for the three months ended March 31, 2016. The increase in cash flows from operations was primarily driven by improved financial results before consideration of noncash items, including a $6.8 million increase of depreciation and amortization expense for the three months ended March 31, 2016 as compared to three months ended March 31, 2015.

Cash Flow from Investing Activities. Net cash used in investing activities was $196,000 and $416,000 during the three months ended March 31, 2015 and 2016, respectively. In 2016 we invested in server storage equipment.

Cash Flow from Financing Activities. Net cash used in financing activities was $20.3 million and $379,000 for the three months ended March 31, 2015 and 2016, respectively. We made a principal payment under the 2011 Term Loan of $20.0 million during the three months ended March 31, 2015.

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Principal Uses of Cash. Our management anticipates that the principal uses of cash during the twelve month period ending March 31, 2017, will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, principal and interest of approximately $24.0 million under the 2015 Credit Agreement, and additional principal payments under the 2015 Term Loan. We believe that cash on hand, cash generated by operations, and borrowing available under our 2015 Credit Agreement, will be sufficient to fund our operations and enable us to meet our liquidity needs through March 31, 2017.

We are required to make prepayments under the 2015 Term Loan in amounts equal to (1) 50% of our excess cash flow, as defined in the 2015 Credit Agreement, for each respective year, 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. Since our Consolidated Leverage Ratio was equal to or less than 2.00 to 1, no excess cash flow payment is expected to be due during the first quarter of 2016.

On August 11, 2015, we entered into a 5-year interest-rate swap to economically convert the debt’s variable rate to a fixed rate. Under the swap contract, we pay interest at a fixed rate of 1.6775% and receive interest at a variable rate equal to the 3-month LIBOR, based on a notional amount of $200.0 million. The swap is not contractually prepayable. Both the debt and the swap require that payments be made or received on the 25th of January, April, July and October. The 3-month U.S. LIBOR on each reset date of January, April, July and October determines the variable interest-rate on the debt and the swap for the following 3-month period. We designated the swap as a cash flow hedge, which hedges the exposure to variability in the cash flows of the variable-rate debt, with changes in cash flows that are due to changes in the 3-month LIBOR being the specific risk that is hedged. It is expected that this swap will fix the cash flows associated with the forecasted interest payments on the notional amount of the debt.

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 our and the Guarantors’ present and future assets, other than interests in the Hallmark trademarks and associated rights.

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 ended December 31, 2015, and for each year thereafter, which percentage will be reduced to 25% if the Consolidated Leverage ratio (as defined in the 2015 Credit Agreement) 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 1.00; (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 certain assets; (3) pay certain dividends or make certain distributions and other restricted payments; (4) make certain investments; (5) prepay certain 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.

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%), 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.

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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.

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, 2015. 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.

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 2015 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 Securities and Exchange Commission (the “SEC”).

The public may read and copy any materials that Crown Media Holdings, Inc. files 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 Business Conduct and Ethics Policy, 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 March 31, 2016, our cash had a fair value of $117.3 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.

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 gains of $183,000 during the three months ended March 31, 2016. 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 are managing 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. A decline in interest rates in the future will not generally benefit us with respect to the portion of our debt covered by the notional amount of our interest rate swap, which is $200.0 million at March 31, 2016.

We have $325.0 million of variable-rate debt as of March 31, 2016, of which $200.0 million is covered by the interest rate swap hedge notional. The margin rate can fluctuate based on changes in our consolidated leverage ratio. If our consolidated leverage ratio decreased to less than 1.50-to-1.00, our margin would decrease from 1.75% to 1.50%. If our consolidated leverage ratio increased to more than 2.25-to-1.00 but less than 3.00-to-1.00, our margin would increase from 1.75% to 2.00%. An increase in LIBOR by 1% would increase annual interest expense on the unhedged

$125.0 million outstanding under the 2015 Term Loan by approximately $1.3 million.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our swapped, variable-rate debt. During the next twelve months, we estimate that we will reclassify $1.5 million of other comprehensive loss to interest expense. This interest expense will also impact income tax expense.

Our material liability subject to interest rate risk consisted of our 2015 Term Loan and our interest rate swap. The balance of these liabilities was $327.8 million, or 63% of total liabilities, as of March 31, 2016. Total net interest expense for the three months ended March 31, 2016, was $3.0 million, 2%, of our total revenue. Our net interest expense for the 2015 Term Loan are sensitive to changes in the general level of interest rates, primarily U.S. LIBOR interest rates.

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

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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 March 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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, 2015, 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.

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

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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	May 3, 2016
By: /s/ ANDREW ROOKE Andrew Rooke	Principal Financial and Accounting Officer	May 3, 2016

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