

# CROWN MEDIA HOLDINGS INC (CRWN)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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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 June 30, 2010

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**

(State or Other Jurisdiction of  
Incorporation or Organization)

**84-1524410**

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

**12700 Ventura Boulevard,  
Suite 200**

**Studio City, California 91604**

(Address of Principal Executive Offices and 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 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. (Check one):

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 August 9, 2010, the number of shares of Class A Common Stock, \$.01 par value outstanding was 359,675,936.

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In this Form 10-Q the terms "Crown Media Holdings" and the "Company" refer to Crown Media Holdings, Inc. and, unless the context requires otherwise, subsidiaries of Crown Media Holdings that operate or have operated our businesses including Crown Media United States, LLC ("Crown Media United States"). The term "common stock" refers to our Class A common stock and Class B common stock, unless the context requires otherwise. As part of the recapitalization transactions described below, each outstanding share of Class B common stock was reclassified as a share of Class A common stock and the Class B common stock was eliminated.

The name Hallmark and other product or service names are trademarks or registered trademarks of their owners.

### 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, 2009	As of June 30, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,456	\$ 18,192
Restricted cash	—	15,007
Accounts receivable, less allowance for doubtful accounts of \$476 and \$208, respectively	68,817	65,531
Program license fees	106,825	99,268
Prepaid program license fees	1,778	11,437
Prepaid and other assets	2,271	3,925
Total current assets	<u>190,147</u>	<u>213,360</u>
Program license fees	178,332	154,337
Property and equipment, net	13,176	12,701
Goodwill	314,033	314,033
Prepaid and other assets	2,373	1,376
Total assets	<u>\$ 698,061</u>	<u>\$ 695,807</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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**CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(In thousands, except par value and number of shares)**  
**(continued)**

	As of December 31,	As of June 30,
	<u>2009</u>	<u>2010</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 19,642	\$ 19,836
Audience deficiency reserve liability	17,872	29,003
License fees payable	99,494	88,408
Payables to Hallmark Cards affiliates	23,745	1,555
Credit facility and interest payable	1,002	—
Notes and interest payable to HCC	345,314	32,225
Company obligated mandatorily redeemable preferred interest	22,902	24,047
Total current liabilities	<u>529,971</u>	<u>195,074</u>
Accrued liabilities	24,484	21,341
License fees payable	82,881	60,772
Notes payable to HCC	—	404,802
Senior secured note to HCC, including accrued interest	758,755	—
Total liabilities	<u>1,396,091</u>	<u>681,989</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
Preferred stock, \$.01 par value; \$1,000 liquidation preference; 10,000,000 and 1,000,000 shares authorized; 0 and 185,000 shares issued and outstanding as of December 31, 2009, and June 30, 2010, respectively	—	185,000
Class A common stock, \$.01 par value; 200,000,000 and 500,000,000 shares authorized; 74,117,654 and 359,675,936 shares issued and outstanding as of December 31, 2009, and June 30, 2010, respectively	741	3,597
Class B common stock, \$.01 par value; 120,000,000 and 0 shares authorized; 30,670,422 and 0 shares issued and outstanding as of December 31, 2009, and June 30, 2010, respectively	307	—
Paid-in capital	1,456,788	1,992,393
Accumulated deficit	(2,155,866)	(2,167,172)
Total stockholders' equity (deficit)	<u>(698,030)</u>	<u>13,818</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 698,061</u>	<u>\$ 695,807</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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**CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2010	2009	2010
Revenue:				
Subscriber fees	\$ 15,860	\$ 15,872	\$ 31,155	\$ 32,866
Advertising	51,756	49,682	106,881	100,928
Advertising by Hallmark Cards	165	144	334	208
Other revenue	401	11	764	85
Total revenue, net	<u>68,182</u>	<u>65,709</u>	<u>139,134</u>	<u>134,087</u>
Cost of Services:				
Programming costs				
Hallmark Cards affiliates	306	410	599	837
Non-affiliates	30,995	29,804	62,917	58,534
Contract termination	—	—	—	103
Other costs of services	4,488	2,713	8,500	5,307
Total cost of services	<u>35,789</u>	<u>32,927</u>	<u>72,016</u>	<u>64,781</u>
Selling, general and administrative expense (exclusive of depreciation and amortization expense shown separately below)	10,711	12,259	22,792	24,287
Marketing expense	842	464	5,617	1,437
Depreciation and amortization expense	484	383	967	766
Loss on sale of film assets	—	155	—	155
Income from operations before interest and income tax expense	<u>20,356</u>	<u>19,521</u>	<u>37,742</u>	<u>42,661</u>
Interest income	124	32	261	50
Interest expense	<u>(25,802)</u>	<u>(25,638)</u>	<u>(50,776)</u>	<u>(51,120)</u>
Income from operations before income tax expense	<u>\$ (5,322)</u>	<u>\$ (6,085)</u>	<u>\$(12,773)</u>	<u>\$(8,409)</u>
Income tax expense	—	(2,897)	—	(2,897)
Net loss and comprehensive loss	<u>\$ (5,322)</u>	<u>\$ (8,982)</u>	<u>\$(12,773)</u>	<u>\$(11,306)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>104,788</u>	<u>110,452</u>	<u>104,788</u>	<u>107,620</u>
Net loss per common share, basic and diluted	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>	<u>\$ (0.12)</u>	<u>\$ (0.11)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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**CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	Six Months Ended June 30,	
	2009	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (12,773)	\$ (11,306)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on sale of film assets	—	155
Depreciation and amortization	66,248	61,962
Accretion on company obligated mandatorily redeemable preferred interest	1,040	1,144
Provision for allowance for doubtful accounts	893	32
Loss on sale of fixed asset	—	2
Debt issuance costs	—	1,044
Income tax expense	—	2,897
Stock-based compensation (benefit)	(684)	109
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(163)	3,255
Additions to program license fees	(67,704)	(27,819)
(Increase) decrease in prepaid and other assets	40	(12,308)
Increase (decrease) in accounts payable, accrued and other liabilities	(5,373)	8,966
Increase in interest payable	36,494	33,797
Decrease in license fees payable	(4,844)	(33,196)
Increase in payables to affiliates	208	54
Net cash provided by operating activities	<u>13,382</u>	<u>28,788</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(194)	(600)
Payments to buyer of international business	(454)	(512)
Net cash used in investing activities	<u>(648)</u>	<u>(1,112)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Funding of restricted cash account	—	(15,007)
Borrowings under the credit facility	18,062	—
Principal payments on the credit facility	(26,310)	(1,000)
Payment on notes payable to HCC	—	(67)
Payments for debt issuance costs under the troubled debt restructuring	—	(3,431)
Principal payments on capital lease obligations	(396)	(435)
Net cash used in financing activities	<u>(8,644)</u>	<u>(19,940)</u>
Net increase in cash and cash equivalents	4,090	7,736
Cash and cash equivalents, beginning of period	2,714	10,456
Cash and cash equivalents, end of period	<u>\$ 6,804</u>	<u>\$ 18,192</u>
<b>Supplemental disclosure of cash and non-cash activities:</b>		
Interest paid	\$ 11,556	\$ 14,764
Reduction of additional paid-in capital for obligation under tax sharing agreement	\$ 6,125	\$ 1,540
Non-cash activities related to the troubled debt restructuring:		
Acceleration of prepaid and other assets	\$ —	\$ 475
Satisfaction of payable to Hallmark Cards affiliates	—	(23,798)
Issuance of new notes payable to HCC	—	437,094
Satisfaction of old notes and interest payable to HCC	—	(340,697)
Satisfaction of senior secured note to HCC, including accrued interest	—	(797,423)
Issuance of preferred stock	—	185,000
Issuance of common stock	—	2,856
Elimination of Class B common stock designation	—	(307)
Additional paid-in capital from preferred and common stock issuance	—	536,800

See accompanying notes to unaudited condensed consolidated financial statements.

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### **CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the Three and Six Months Ended June 30, 2009 and 2010**

#### **1. Business and Organization**

##### *Organization*

Crown Media Holdings, Inc. ("Crown Media Holdings" or the "Company"), through its wholly-owned subsidiary, Crown Media United States, LLC ("Crown Media United States"), owns and operates pay television channels (collectively the "Channels" or the "channels") dedicated to high quality, entertainment programming for adults and families, in the United States. At June 30, 2010, following the recapitalization of the Company as described below, the significant investor in the Company was H C Crown Corp. ("HCC"), a subsidiary of Hallmark Cards, Incorporated ("Hallmark Cards").

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

##### *Recent Developments*

###### *Recapitalization of the Company*

On June 29, 2010 the Company consummated a series of recapitalization transactions (the "Recapitalization") pursuant to a Master Recapitalization Agreement dated February 26, 2010, by and among the Company, Hallmark Cards, HCC and related entities.

Among other things, the Recapitalization included the following:

- Exchange of approximately \$1.162 billion of debt (the "HCC Debt") for new debt, preferred stock and common stock;
- Mergers of two intermediate holding companies, Hallmark Entertainment Investments Co. ("HEI") and Hallmark Entertainment Holdings, Inc. ("HEH"), with and into the Company (collectively, the "Mergers");
- Reclassification of Class B shares of common stock into shares of Class A common stock upon the filing of the Second Amended and Restated Certificate of Incorporation; and
- Approval and authorization for the future filing of the Third Amended and Restated Certificate of Incorporation, the principal effect of which would be a reverse split of shares of common stock at such time as authorized by the Company's Board of Directors.

The following were issued in exchange for HCC Debt:

- \$315.0 million principal amount of new debt issued pursuant to the terms of the credit agreement between the Company and HCC (the "Credit Agreement") in two tranches: (i) the \$200.0 million Term A Loan bearing interest at 9.5% per annum through December 31, 2011, and 12% thereafter and (ii) the \$115.0 million Term B Loan bearing interest at 11.5% through December 31, 2011, and 14.0% thereafter (collectively, the "New Debt");
- 185,000 shares of the Company's Series A Convertible Preferred Stock ("Preferred Stock"), \$0.01 par value, with the terms summarized under "Preferred Stock Terms" in Item 2 *Management's Discussion and Analysis of Financial Condition and Results of Operations* below; and
- 254,887,860 shares of the Company's Class A common stock in exchange for the residual amount of HCC Debt converted at \$2.5969 per share.

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Immediately after consummation of the Mergers and issuance of common stock in partial exchange for HCC Debt, HCC owned approximately 90.3% of the Company's Class A common stock and all of the outstanding Preferred Stock.

In addition, the transactions resulted in the following:

- The increase of the authorized shares of Class A common stock to 500,000,000 shares; the decrease of the authorized Preferred Stock to 1,000,000 shares; and the elimination of the Class B common stock;
- Amendment No. 2 to the Tax Sharing Agreement between the Company and Hallmark Cards, to among other things, (i) permit Hallmark Cards to defer any future tax benefit payable to the Company for application against future tax liabilities of the Company and (ii) allow the Company to deduct interest accrued on the 10.25% Senior Secured Note from January 1, 2010, through June 29, 2010; and (iii) provide for the treatment of the Recapitalization under the Tax Sharing Agreement (see Note 6 below);
- Execution of the registration rights agreement, by and among the Company, HCC and certain HEIC stockholders;
- Extension of the Company's \$30.0 million revolving line of credit to June 30, 2011, and Hallmark Card's agreement to guarantee up to \$30.0 million for such revolving line of credit (see Notes 4 and 5 below); and
- A Stockholders Agreement, by and among the Company, HCC and Hallmark Cards, pursuant to which, among other things, Hallmark Cards entities agreed not to acquire, through December 31, 2013, additional shares of Class A common stock, subject to certain exceptions, and agreed to certain restrictions on their ability to sell or transfer shares of Class A common stock until December 31, 2013 and, subject to lesser restrictions, until December 31, 2020.

See "Recapitalization" in Note 5 for the accounting treatment of the Recapitalization.

### *Liquidity*

As of June 30, 2010, the Company had \$18.2 million in cash and cash equivalents on hand. Also available to the Company was the full \$30.0 million bank credit facility which expires June 30, 2011. Day-to-day cash disbursement requirements have typically been satisfied with cash on hand and operating cash receipts supplemented with the borrowing capacity available under the bank credit facility and, prior to the Recapitalization, forbearance by Hallmark Cards and its affiliates.

The Company's management anticipates that the principal uses of cash during the twelve month period ending June 30, 2011, will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, and interest of approximately \$30.0 million to \$35.0 million due under the New Debt issued in the Recapitalization. Subject to the legal availability of funds and approval by the Company's board of directors, the Company may also pay approximately \$13.0 million for cash dividends on Preferred Stock during the six months ending June 30, 2011; at the option of the Company's board of directors, such dividends, if any, may be paid in the form of additional shares of Preferred Stock.

At June 30, 2010, the Company also had an additional \$15.0 million of cash, the use of which is restricted to payment of the \$25.0 million company obligated, mandatorily redeemable preferred interest payable to NICC on December 31, 2010. As of July 31, 2010, the Company had increased such restricted cash to \$20.0 million. The Company believes that it will be able to fund all, or substantially all, of the remaining \$5.0 million with cash provided by operating activities.

## **2. Summary of Significant Accounting Policies and Estimates**

### *Interim Financial Statements*

In the opinion of management, the accompanying condensed consolidated balance sheets and related interim

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condensed consolidated statements of operations and cash flows include all adjustments, consisting of normal recurring items necessary for their fair presentation in conformity with accounting principles generally accepted in the United States. Interim results are not necessarily indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the 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, 2009.

### ***Basis of Presentation***

The 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 generally accepted accounting principles 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 is required. Subsequent events have been evaluated.

### ***Use of Estimates***

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 revenues and expenses. Such estimates include the collectability of accounts receivable, the valuation of goodwill, intangible assets, and other long-lived assets, legal contingencies, indemnifications, and assumptions used in the calculation of income taxes, among others. A significant non-recurring use of estimates occurred in the course of recording the Company's June 2010 troubled debt restructuring which required that the Company estimate the fair values of preferred stock and common stock issued in the Recapitalization.

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. Illiquid credit markets, volatile equity, foreign currency, and energy markets, and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

### ***Allowance for Doubtful Accounts***

The allowance for doubtful accounts is based upon the Company's assessment of probable loss related to uncollectible accounts receivable. The Company uses a number of factors in determining the allowance, including, among other things, collection trends. The Company's bad debt expense was \$271,000 and \$6,000 for the three months ended June 30, 2009 and 2010, respectively. The Company's bad debt expense was \$893,000 and \$32,000 for the six months ended June 30, 2009 and 2010, respectively.

### ***Fair Value of Financial Instruments***

Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "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. On January 1, 2008 we adopted that portion of the standard that relates to those financial assets and liabilities and nonfinancial assets and liabilities which are recognized or disclosed at fair value on a recurring basis (that is, at least annually). On January 1, 2009, subject to the FASB's delayed implementation, we adopted the remaining provisions of the standard. After

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adoption, we now determine fair value as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Company does not have balance sheet items carried at fair value on a recurring basis such as derivative financial instruments which are valued primarily based on quoted prices in active or brokered markets for identical as well as similar assets and liabilities. Significant balance sheet items which are subject to non-recurring fair value measurements consist of impairment valuations of goodwill and property and equipment. The standard has not had a significant impact on the determination of fair value related to non-financial assets and non-financial liabilities in 2010.

### *Net Loss per Share*

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed based on the weighted average number of common shares and potentially dilutive common shares outstanding. The calculation of diluted net loss per share excludes potential common shares if the effect would be antidilutive. Potential common shares consist of incremental common shares issuable upon the exercise of stock options or the conversion of Preferred Stock. Approximately 71.2 million incremental shares related to the Preferred Stock issued June 29, 2010, in connection with the Recapitalization have been excluded from the calculations of earnings per share for the three and six months ended June 30, 2010, because their effect would have been antidilutive. Approximately 341,000 and 66,000 stock options for the three and six months ended June 30, 2009 and 2010, respectively, have been excluded from the calculations of earnings per share because their effect would have been antidilutive.

Additionally, no consideration has been given to preferred dividends, because there were not any accrued or paid dividends in 2010.

### *Concentration of Credit Risk*

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

Five and four of our distributors each accounted for more than 10% of our consolidated subscriber revenue for both the three months ended June 30, 2009 and 2010, and together accounted for a total of 76% and 63% of consolidated subscriber revenue during the three months ended June 30, 2009 and 2010, respectively. Three of our distributors each accounted for approximately 15% or more of our consolidated subscribers for the three months ended June 30, 2009 and 2010, respectively, and together accounted for 62% and 60% of our subscribers during the three months ended June 30, 2009 and 2010, respectively.

Five and four of our distributors each accounted for more than 10% of our consolidated subscriber revenue for the six months ended June 30, 2009 and 2010, and together accounted for a total of 76% and 64% of consolidated subscriber revenue during the six months ended June 30, 2009 and 2010, respectively. Three of our distributors each accounted for approximately 15% or more of our consolidated subscribers for the six months ended June 30, 2009 and 2010, respectively, and together accounted for 62% and 60% of our subscribers during the six months ended June 30, 2009 and 2010, respectively.

Four of our programming content providers each accounted for more than 10% of our total license fees payable for both the six months ended June 30, 2009 and 2010, and together accounted for a total of 64% and 71% of the consolidated programming liability, respectively.

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### **Recently Issued Accounting Pronouncements**

In October 2009, the FASB issued Accounting Standards Update, 2009-13, Revenue Recognition (ASC Topic 605): *Multiple Deliverable Revenue Arrangements — A Consensus of the FASB Emerging Issues Task Force*. This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance for fiscal years beginning on or after June 15, 2010, prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The Company has not determined the impact that this update may have on its financial statements.

In January 2010, the FASB issued guidance that requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The guidance is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures that are effective for annual periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

### **Health Care Reform**

During the first quarter of 2010, the U.S. Congress passed and the President signed into law the Patient Protection and Affordable Care Act as well as the Health Care and Education Reconciliation Act of 2010, which represent significant changes to the current U.S. health care system. The legislation is far-reaching and is intended to expand access to health insurance coverage over time by increasing the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax incentives to subsidize a portion of the cost of health insurance coverage. The legislation includes requirements that most individuals obtain health insurance coverage and that most large employers offer coverage to their employees or pay financial penalties. Some of the more significant changes, including the requirement that individuals obtain coverage, do not become effective until 2014 or later. It is too early to fully understand the impacts of the legislation on our business.

### **3. Program License Fees**

Program license fees are comprised of the following:

	As of December 31, 2009	
	(In thousands)	
Program license fees — non-affiliates	\$ 597,206	\$
Program license fees — Hallmark Cards affiliates	12,668	
Program license fees, at cost	609,874	
Accumulated amortization	(324,717)	
Program license fees, net	\$ 285,157	\$

At December 31, 2009, and June 30, 2010, \$1.8 million and \$11.4 million, respectively, of program license fees were included in prepaid and other assets on the accompanying condensed consolidated balance sheets because the related license periods had not commenced.

License fees payable are comprised of the following:

	As of December 31, 2009		As of Jun 2010
	(In thousands)		
License fees payable — non-affiliates	\$ 171,966	\$	1
License fees payable — Hallmark Cards affiliates	10,409		
Total license fees payable	182,375		1
Less current maturities	(99,494)		
Long-term license fees payable	\$ 82,881	\$	

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In the regular course of evaluating the remaining usefulness of its various program licenses, the Company may determine that certain licenses may be of little future program value to it. In such instances, the Company shortens the estimated remaining lives to zero, thereby accelerating amortization of the remaining net book value. During the three months ended March 31, 2010, such changes in estimates resulted in additional amortization of program license fees of \$227,000; the Company made no such changes in estimates during the three and six months ended June 30, 2009, and the three months ended June 30, 2010.

### **4. Credit Facility**

The Company entered into Amendment No. 17, effective June 29, 2010, to the Company's amended credit agreement with JP Morgan Chase Bank. Amendment No. 17, among other things, extends the maturity date of the credit facility provided by the credit agreement to June 30, 2011, from August 31, 2010. Pursuant to Amendment No. 16 to the credit facility, entered into on March 2, 2010, the maximum amount that may be borrowed under the credit facility is \$30.0 million.

Amendment No. 17 terminates the Hallmark Cards Subordination and Support Agreement. The Hallmark Cards Facility Guarantee remains in place and an intercreditor agreement among HCC, JP Morgan Chase Bank and the Company was entered into, which among other things defines the lien priorities and allows for payments to HCC pursuant to the Recapitalization. The credit facility is guaranteed by Hallmark Cards and the Company's subsidiaries and is secured by all tangible and intangible assets of the Company and its subsidiaries. Interest under the credit facility is equal to the LIBOR Rate (as defined in Amendment No. 17) plus 2.25%, in the case of a Eurodollar Loan (as defined in Amendment No. 17), and the Alternate Base Rate (as defined in Amendment No. 17) plus 1.25%, in the case of an Alternate Base Rate Loan.

The credit facility, as amended, contains a number of affirmative and negative covenants. The affirmative and negative covenants and default provisions are described in the Company's Annual Report on Form 10-K. The Company was in compliance with these covenants as of June 30, 2010.

At December 31, 2009, and June 30, 2010, the Company had outstanding borrowings of \$1.0 million and \$0, respectively, under the credit facility and there were no letters of credit outstanding. At December 31, 2009, all of the outstanding balance bore interest at the Eurodollar rate (2.49% weighted average rate at December 31, 2009). Interest expense on borrowings under the credit facility for each of the three months ended June 30, 2009 and 2010, was \$182,000 and \$0, respectively. Interest expense on borrowings under the credit facility for each of the six months ended June 30, 2009 and 2010, was \$289,000 and \$4,000, respectively.

### **5. Related Party Long-Term Obligations**

#### ***Recapitalization***

For financial reporting purposes, the Recapitalization has been accounted for as a troubled debt restructuring in accordance with the guidance of *Accounting Standards Codification* (the "ASC") *Topic 470-60 Debt—Troubled Debt Restructurings*, based on the estimated fair value of the Company's Preferred Stock and Common Stock as of June 29, 2010. Identification of the Recapitalization as a troubled debt restructuring involved both qualitative and quantitative aspects. Among the qualitative aspects considered were (i) the Company's expectations that it would have been unable to fulfill the debt service requirements associated with approximately \$342.2 million of principal and interest payable to HCC on May 1, 2010 upon the expiration of the waiver agreement (which was extended to August 31, 2010 pursuant to the master recapitalization agreement), along with an additional \$784.6 million of principal and interest that would become immediately due pursuant to cross-default provisions, and (ii) the going concern opinion rendered by the Company's independent registered public accounting firm in connection with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Quantitatively, Hallmark Cards is deemed to have granted a "concession" within the meaning of ASC 470-60. Prior to consummation of the Recapitalization, the weighted average interest rate of HCC debt was approximately 8.3%. After consideration of (x) the estimated fair values of Preferred Stock and Common Stock issued in the

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Recapitalization and (y) the debt service requirements of New Debt, the overall effective interest rate resulting from the Recapitalization is less than 1%.

Pursuant to the guidance in the ASC, we (1) recorded the issuance of Preferred Stock and Common Stock at their respective estimated fair values as of June 29, 2010 and (2) recorded New Debt in an amount equal to the residual of (i) the carrying value of HCC Debt less (ii) the estimated fair values of such Preferred Stock and Common Stock. New Debt has been apportioned between the Term A and Term B Loans on the basis of their relative fair values. The amounts by which the apportioned Term Loans exceeded the respective stated amounts of principal are being amortized over the terms of the loans as reductions of the interest expense that otherwise would arise from the stated cash interest rates. The resulting effective interest rates are approximately 0.429% and 0.607%, for the Term A Loan and Term B Loan, respectively. If, and when, any of the available pay-in-kind (where interest is added to principal) options are exercised, the effects of such elections will be recognized prospectively.

The Mergers of HEI and HEH involve non-substantive subsidiaries of Hallmark Cards. The Mergers were recorded at carry-over basis pursuant to the guidance of *ASC 805-50 Business Combinations—Related Issues*. HEIC and HEH did not have assets other than their investment in the Company; neither company had any liabilities.

The fair value estimates used in the accounting for the recapitalization are preliminary and are subject to change based on final valuations and finalization of the related costs.

The following table summarizes the accounting for the Recapitalization:

	<b>In thousands</b>
<b>Pre-Recapitalization</b>	
HCC Debt	\$1,161,918
Deferred debt issuance costs	(475)
Transaction costs	(3,596)
	<u>\$1,157,847</u>
<b>Post-Recapitalization</b>	
New Debt	\$ 437,094
Preferred stock, \$185,000 shares, \$0.01 par value, \$1,000 liquidation preference	185,000
Common stock, \$0.01 par value	2,549
Additional paid-in capital	
Fair values of new preferred stock and common stock, less liquidation preference and par value, respectively	\$536,800
Transaction costs related to new preferred stock and common stock	(2,552) 534,248
Transaction costs related to the New Debt included in selling, general and administrative expense	(1,044)
	<u>\$1,157,847</u>

See "Recapitalization of the Company" in Note 1 for information regarding the debt obligations owed to HCC immediately prior to the Recapitalization.

The aggregate maturities of related party long-term debt and future interest (assuming no utilization of the payment-in-kind options) for each of the five years subsequent to June 30, 2010, are as follows:

	<b>Payments Due by Period</b>					
	<b>Total</b>	<b>Less than 1 Year</b>	<b>2 Years</b>	<b>3 Years</b>	<b>4 Years</b>	<b>5 Years</b>
	(In thousands)					
Term A note, due December 31, 2013, interest payable quarterly to HCC at 9.5% per annum through December 31, 2011 and 12% thereafter	\$ 276,579	\$ 19,000	\$ 21,513	\$ 23,967	\$ 212,099	\$ —
Term B note, due December 31, 2013, interest payable quarterly to HCC at 11.5% per annum through December 31, 2011 and 14% thereafter	167,092	13,225	14,673	16,078	123,116	—
	<u>\$ 443,671</u>	<u>\$ 32,225</u>	<u>\$ 36,186</u>	<u>\$ 40,045</u>	<u>\$ 335,215</u>	<u>\$ —</u>



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### ***Senior Secured Note***

In August 2003, the Company issued a senior note to HCC for \$400.0 million. Cash payments for interest were not required from inception through June 29, 2010. The principal amount of the senior secured note accreted at 10.25% per annum, compounding semi-annually, to June 29, 2010. At December 31, 2009, \$758.8 million of principal and interest were included in the senior note payable in the accompanying consolidated balance sheet. The obligations under this note were terminated in connection with the Recapitalization.

### ***Notes and Interest Payable to HCC***

On December 14, 2001, the Company executed a \$75.0 million promissory note with HCC. Interest was payable in cash, quarterly in arrears five days after the end of each calendar quarter. The rate of interest under this note was LIBOR plus 5% per annum (5.29% at December 31, 2009). At December 31, 2009, \$108.6 million is reported as note payable to Hallmark Cards affiliate and \$1.5 million is reported as interest payable to Hallmark Cards affiliate on the accompanying consolidated balance sheet. Interest of \$6.3 million was paid in 2009, interest of \$1.5 million was paid on January 5, 2010, interest of \$1.4 million was paid on April 2, 2010, and interest of \$1.4 million was paid on June 29, 2010. The obligations under this note were terminated in connection with the Recapitalization.

On October 1, 2005, the Company converted approximately \$132.8 million of its license fees payable to a Hallmark Cards affiliate to a promissory note subsequently transferred to HCC. The rate of interest under this note was LIBOR plus 5% per annum (5.29% at December 31, 2009). At December 31, 2009, \$170.1 million is reported as note payable to HCC and \$2.3 million is reported as interest payable to HCC on the accompanying consolidated balance sheet. Interest of \$9.8 million was paid in 2009, interest of \$2.3 million was paid on January 5, 2010, interest of \$2.2 million was paid on April 2, 2010, and interest of \$2.3 million was paid on June 29, 2010. The obligations under this note were terminated in connection with the Recapitalization.

On March 21, 2006, the Company converted approximately \$70.4 million of its payable to a Hallmark Cards affiliate to a promissory note subsequently transferred to HCC. The rate of interest under this note was LIBOR plus 5% per annum (5.29% at December 31, 2009). At December 31, 2009, \$62.0 million is reported as note payable to HCC and \$838,000 is reported as interest payable to HCC on the accompanying consolidated balance sheet. Interest of \$3.6 million was paid in 2009, interest of \$838,000 was paid on January 5, 2010, interest of \$814,000 was paid on April 2, 2010, and interest of \$820,000 was paid on June 29, 2010. The obligations under this note were terminated in connection with the Recapitalization.

### ***Interest Paid to HCC***

Interest expense paid to HCC in connection with the JPMorgan Chase Bank credit facility was \$850,000 for the three months ended June 30, 2009, and \$0 for the three months ended June 30, 2010. Interest expense paid to HCC in connection with the credit facility was \$998,000 for the six months ended June 30, 2009, and \$2,000 for the six months ended June 30, 2010.

### ***Hallmark Guarantee; Interest and Fee Reductions***

Hallmark Cards has provided to JPMorgan Chase Bank under the credit facility the Hallmark Cards facility guarantee. The guarantee is unconditional for obligations of the Company under the bank credit facility. If any payment is made on the guarantee, it will be treated as a purchase of the lending bank's interest in the credit facility. Prior to April 2009, Hallmark Cards' credit support for the Company's bank credit facility consisted of supplying a letter of credit.

The above mentioned credit support provided by Hallmark Cards resulted in reductions in the interest rate and commitment fees under the credit facility; however, the Company agreed to pay and has paid an amount equal to the reductions in the interest rate and commitment fees to Hallmark Cards. On April 1, 2009, the interest rate and

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commitment fees under the renewed credit facility increased and we began paying Hallmark Cards a smaller reduction amount of the interest rate and commitment fees equal to 0.75% and 0.125%. Commitment fee expense for both the three months ended June 30, 2009 and 2010, was \$10,000. Commitment fee expense for the six months ended June 30, 2009 and 2010, was \$25,000 and \$22,000, respectively.

### ***Other Agreements with Hallmark Cards and Affiliates***

See Item 2 *Management's Discussion and Analysis of Financial Condition and Results of Operations* below for discussion regarding other agreements with Hallmark Cards and its affiliates.

## **6. Related Party Transactions**

### ***Tax Sharing Agreement***

#### *Overview*

On March 11, 2003, Crown Media Holdings became a member of Hallmark Cards consolidated federal tax group and entered into a federal tax sharing agreement with Hallmark Cards (the "tax sharing agreement"). Hallmark Cards includes Crown Media Holdings in its consolidated federal income tax return. Accordingly, Hallmark Cards has benefited from subsequent tax losses and may benefit from future federal tax losses, which may be generated by Crown Media Holdings. Based on the tax sharing agreement, Hallmark Cards has agreed to pay Crown Media Holdings all of the benefits realized by Hallmark Cards as a result of including Crown Media Holdings in its consolidated income tax return. Through December 31, 2009, these benefits have been paid 75% in cash on a quarterly basis with the balance applied as an offset against other amounts owed by Crown Media Holdings to any member of the Hallmark Cards consolidated group under any loan, line of credit or other payable, subject to limitations under any loan indentures or contracts restricting such offsets. As a result of the Recapitalization, the tax agreement has been amended to provide that 100% of any such benefit will be deferred for application against future tax liabilities of the Company. Pursuant to the amendment to the tax sharing agreement in August 2003, the benefit that would otherwise result from interest accrued on the 10.25% senior secured note will not be available to the Company until such interest is paid in cash. As a result of the Recapitalization, such interest accrued from January 1, 2010, through June 29, 2010, will be treated as a deduction under the amended tax sharing agreement.

The Company owed Hallmark Cards \$8.5 million under the tax sharing agreement for 2009. The liability was satisfied on June 29, 2010, in connection with the Recapitalization. The Company owed \$1.5 million under the amended tax sharing agreement for the six months ended June 30, 2010, a reduction of \$3.2 million from the March 31, 2010, estimated amount owed of \$4.7 million. Any payments received from Hallmark Cards or credited against amounts owed by Crown Media Holdings to any member of the Hallmark Cards consolidated group under the tax sharing agreements have been recorded as additions to paid-in capital in the accompanying consolidated statements of stockholders' (deficit) equity. Any amounts owed or payments made to Hallmark Cards or to any member of the Hallmark Cards consolidated group under the tax sharing agreement have been recorded as reductions to paid-in capital in the accompanying consolidated statements of stockholders' (deficit) equity.

The first payment by the Company pursuant to the amended tax sharing agreement will occur after the first full quarter following the closing of the Recapitalization Transactions and will be made in respect of the period commencing from January 1, 2010, through the last day of the first full quarter following the closing. The Company expects to make its first cash payment through the third quarter of 2010 on December 15, 2010, for tax liabilities incurred under the tax sharing agreement as amended.

Historically, the Company has accounted for income taxes as if it were a separate taxpayer not included in the consolidated tax return of Hallmark Cards. For tax purposes, the recapitalization generated cancellation of debt income which is currently estimated at approximately \$200.0 million. Accordingly, the Company is expected to generate 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 can be used against AMT income but are limited to 90% of AMT income. As a result, the Company has recorded an income tax expense of approximately \$2.9 million for the estimated AMT in its consolidated statements of operations.

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However, as a result of being included in the consolidated tax return of Hallmark Cards, this AMT expense is not required to be paid to the Internal Revenue Service nor to Hallmark Cards under the tax sharing agreement. Accordingly, the Company has reduced the liability for the aforementioned AMT and credited paid-in capital. The net result for AMT calculated as if the Company is a separate taxpayer is a charge to the consolidated statements of operations and a corresponding credit to paid-in capital.

### ***Services Agreement with Hallmark Cards***

Hallmark Cards provides Crown Media Holdings with tax, risk management, health safety, environmental, insurance, legal, treasury, human resources, and cash management services 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 quarter. Fees for Hallmark Cards' services were \$455,000 for 2009 and are scheduled to be \$387,000 for 2010. The Company has timely paid and will continue to timely pay the monthly amounts due in 2009 and 2010. Intercompany service fee expense for the three months ended June 30, 2009 and 2010, was \$114,000 and \$97,000, respectively. Intercompany service fee expense for the six months ended June 30, 2009 and 2010, was \$228,000 and \$194,000, respectively.

At December 31, 2009, and June 30, 2010, non-interest bearing unpaid accrued service fees and unreimbursed expenses of \$15.2 million and \$0, respectively, were included in payable to affiliates on the accompanying consolidated balance sheets. The \$15.2 million outstanding at December 31, 2009, was satisfied on June 29, 2010, in connection with the Recapitalization. For the year ended December 31, 2009, and the six months ended June 30, 2010, out-of-pocket expenses and amounts paid to third parties on the Company's behalf by Hallmark Cards were \$420,000 and \$54,000, respectively.

### ***Lease Guarantees with Hallmark Cards***

On February 24, 2010, the Company executed a letter of credit/guaranty commitment with respect to certain lease agreement with 12700 Investments, Ltd. for the office space at 12700 Ventura Boulevard, Studio City, California. The landlord required that Crown Media United States, the entity which executed the lease, provide a letter of credit of \$1.6 million securing certain obligations of Crown Media United States. Consequently, Hallmark Cards has agreed to guarantee the issuer of such letter of credit against any loss thereon pursuant to the guaranty. As an inducement for Hallmark Cards to issue the guaranty, Crown Media United States has agreed to pay Hallmark Cards a fee which equals 0.75% per annum of the outstanding letter of credit obligation. Additionally, in the event that Hallmark Cards is required to pay any amount under the guaranty, Crown Media United States must reimburse Hallmark Cards for any such amount plus any fees and charges associated with making such payment, any interest applicable to such amount and any costs and expenses of Hallmark Cards in connection with protecting its rights under the guaranty.

On September 2, 2008, Hallmark Cards issued a guaranty for the benefit of Crown Media United States, which guaranty pertains to that certain lease agreement with Paramount Group, Inc. for the office space at 1325 Avenue of the Americas, New York, New York. As a condition to executing the lease agreement, the landlord required Hallmark Cards to guaranty all obligations of Crown Media United States under the lease agreement. As an inducement for Hallmark Cards to issue the guaranty, Crown Media United States has paid Hallmark Cards a fee which equals 0.28% per annum of the outstanding obligation under the lease agreement. Additionally, in the event that Hallmark Cards is required to pay any amount under the guaranty, Crown Media United States must reimburse Hallmark Cards for any such amount plus any fees and charges associated with making such payment, any interest applicable to such amount and any costs and expenses of Hallmark Cards in connection with protecting its rights under the guaranty.

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### **7. Company Obligated Mandatorily Redeemable Preferred Interest and NICC License Agreements**

VISN Management Corp. ("VISN," a wholly-owned subsidiary of NICC, owns a \$25.0 million company obligated mandatorily redeemable preferred interest in Crown Media United States (the "preferred interest"). On November 13, 1998, the Company, VISN, Vision Group Incorporated and Henson Cable Networks, Inc. signed an amended and restated company agreement governing the operation of Crown Media United States (the "company agreement"), which agreement was further amended on February 22, 2001, January 1, 2002, March 5, 2003, January 1, 2004, November 15, 2004 and December 1, 2005 (the "December 2005 NICC Settlement Agreement").

Crown Media United States may voluntarily redeem the \$25.0 million preferred interest at any time; however, it is obligated to do so no later than December 31, 2010. The terms of the Recapitalization required the Company to set aside in its own name an unspecified amount, not to exceed \$25.0 million, for the sole purpose of redeeming the preferred interest. The \$15.0 million set aside as of June 30, 2010, is reflected as restricted cash in the accompanying condensed, consolidated balance sheet. As of July 31, 2010, the Company had set aside \$20.0 in this restricted fund.

On January 2, 2008, the Company and NICC resolved disputes amongst themselves and signed an agreement (the "Modification Agreement") which, among other things, immediately extinguished NICC's conditional right to require the Company to repurchase all of the shares of the Company's Class A common stock then owned by NICC ("Put Right"). In addition, the Modification Agreement also settled the dispute with respect to whether the Termination Payment provision expired with, or survived, the December 31, 2007 expiration of the December 2005 NICC Settlement Agreement. The Company agreed to pay NICC \$3.8 million in three equal installments payable each January 20 of 2008, 2009 and 2010. The Company also agreed to provide NICC a two-hour broadcast period granted each Sunday morning during the two year period ending December 31, 2009. The Company is also obligated to pay NICC an estimated \$3.7 million in yearly installments at the rate of 6% of the outstanding liquidation preference of the preferred interest.

During the three months ended June 30, 2009 and 2010, Crown Media United States paid NICC \$40,000 and \$0, respectively, related to the company agreement as amended. During the six months ended June 30, 2009 and 2010, Crown Media United States paid NICC \$4.5 million and \$2.8 million, respectively, related to the company agreement as amended.

### **8. Share-Based Compensation**

Approximately 200,000 stock options expired, without being exercised, in August 2009 following the resignation of one of the Company's executives in May 2009. Such options were fully vested at the time of resignation.

The Company recorded \$266,000 of compensation benefit and \$33,000 of compensation expense associated with the employment and performance restricted stock units (RSUs) during the three months ended June 30, 2009 and 2010, respectively, which have been included in selling, general and administrative expense on the accompanying condensed consolidated statements of operations. The Company recorded \$437,000 of compensation benefit and \$109,000 of compensation expense associated with the employment and performance restricted stock units (RSUs) during the six months ended June 30, 2009 and 2010, respectively, which have been included in selling, general and administrative expense on the accompanying condensed consolidated statements of operations.

As of December 31, 2009, and June 30, 2010, there was no unrecognized compensation cost, related to non-vested stock options granted to the Company's employees. The closing price of a share of the Company's common stock was \$1.45 on December 31, 2009, and \$1.76 on June 30, 2010, which is used to calculate the RSU liability. As of December 31, 2009, and June 30, 2010, there was unrecognized compensation cost, related to non-vested RSUs granted to the Company's employees, in the amount of \$190,000 and \$136,000, respectively, using the aforementioned stock prices. Actual compensation costs recognized in future periods may vary based upon fluctuations in stock price and forfeitures.

The Company issued cash settlements related to the RSUs of \$1.5 million during the year ended December 31, 2009, and \$0 during both the three and six months ended June 30, 2010.

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In May 2009, the then CEO terminated his employment and his share appreciation rights ("SARs") were forfeited at that time. The Company recorded \$131,000 and \$247,000 in compensation benefit related to SARs for the three and six months ended June 30, 2009, on the Company's condensed consolidated statement of operations as a component of selling, general and administrative expense. The SARs were recorded as a liability until termination.

### **9. Long Term Incentive Plan**

In the second quarter of 2009, the Company granted Long Term Incentive Compensation Agreements ("LTI Agreements") to each vice president, senior vice president and executive vice president of the Company. The target award under each LTI Agreements is a percentage of the employee's base salary and range from \$26,000 to \$469,000. Of each award, 50% is an Employment Award and 50% is a Performance Award. The Employment Award will vest and be settled in cash on August 31, 2011, subject to earlier pro rata settlement as provided in the LTI Agreement. The Performance Award will vest and be settled in cash 50% on December 31, 2010, and 50% on December 31, 2011, in accordance with the Company performance criteria concerning adjusted EBITDA and cash flow and subject to earlier pro rata settlement as provided in the LTI Agreement. Early settlement is provided in the case of involuntary termination of employment without cause on or after January 1, 2010, death or disability. Potential payouts under the Performance Awards depend on achieving 90% or higher of a target threshold and range from 0% to 150% of the target award. The Company's Compensation Committee has the ability to increase or decrease the payout based on an assessment of demographics achieved, relative market conditions and management of expenses.

In the first quarter of 2010, the Company granted LTI Agreements to each vice president, senior vice president and executive vice president of the Company. The target award under each LTI Agreements is a percentage of the employee's base salary and range from \$25,000 to \$536,000. Of each award, 50% is an Employment Award and 50% is a Performance Award. The Employment Award will vest on August 31, 2012, and be settled in cash within 30 days thereafter, subject to earlier pro rata settlement as provided in the LTI Agreement. The Performance Award will vest on December 31, 2012, and be settled in cash the later of 30 days thereafter or 15 days after the Company issues its audited financials for 2012, but by no later than March 15, 2013. Vesting of the Performance Award will be determined in accordance with the Company performance criteria concerning adjusted EBITDA and cash flow and subject to earlier pro rata settlement as provided in the LTI Agreement. Early settlement is provided in the case of involuntary termination of employment without cause on or after January 1, 2011, death or disability. Potential payouts under the Performance Awards depend on achieving 90% or higher of a target threshold and range from 0% to 150% of the target award. The Company's Compensation Committee has the ability to increase or decrease the payout based on an assessment of demographics achieved, relative market conditions and management of expenses.

The Company recorded \$119,000 and \$288,000 of expense included in selling, general and administrative expense in the accompanying consolidated statement of operations for the three months ended June 30, 2009 and 2010, related to these agreements. The Company recorded \$326,000 and \$716,000 of expense included in selling, general and administrative expense in the accompanying consolidated statement of operations for the six months ended June 30, 2009 and 2010, related to these agreements. Additionally, the \$540,000 and \$1.3 million liability for these agreements was included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets at December 31, 2009, and June 30, 2010.

### **10. Fair Value**

The following table presents the carrying amounts and estimated fair values of certain of the Company's financial instruments at December 31, 2009, and June 30, 2010.

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	December 31, 2009		June 30, 2010	
	Carrying Amount	Significant Unobservable Inputs (Level 3) Fair Value	Carrying Amount	Significant Unobservable Inputs (Level 3) Fair Value
(In thousands)				
Senior secured note to HCC, including accrued interest	\$ 758,755	\$ 641,635	\$ —	\$ —
Note and interest payable to HCC	110,062	93,074	—	—
Note and interest payable to HCC	62,845	53,144	—	—
Note and interest payable to HCC	172,407	145,795	—	—
Term A note payable to HCC	—	—	272,966	190,865
Term B note payable to HCC	—	—	164,061	114,721
Company obligated mandatorily redeemable preferred interest	22,902	19,800	24,047	23,000

*ASC Topic 820* 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. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the liability, such as inherent risk, transfer restrictions, and credit risk. Level 3 is defined as inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the liability.

The carrying amounts shown in the table are included on the accompanying consolidated balance sheets under the indicated captions. The valuation of the Company obligated mandatorily redeemable preferred interest is based on the preferred liquidation preference being payable in full on December 31, 2010.

The Company estimates the fair value of its debt to HCC on a quarterly basis. The Company utilized a discounted future cash flows method (which applies a discount rate to earnings projections for a period of years) to value the Company's total invested capital.

Accounts payable and receivable are carried at reasonable estimates of their fair values because of the short-term nature of these instruments. Interest rates on borrowings under the bank credit facility 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 in debt is fixed, but the market credit spread will fluctuate.

Estimates of the fair value of certain of the Company's financial instruments are presented in the tables above. As a result of recent market conditions, the Company's debt obligations with HCC and the mandatorily redeemable preferred interest have limited or no observable market data available. Fair value measurements for these instruments are included in Level 3 of the fair value hierarchy of *ASC Topic 820*. These fair value measurements are based primarily upon the Company's own estimates and are often based on its current pricing policy, the current economic and competitive environment, the characteristics of the instrument, credit and interest rate risks, and other such factors. Therefore, the results cannot be determined with precision, cannot be substantiated by comparison to quoted prices in active markets, and may not be realized in an immediate settlement of the liability. Additionally, there are inherent uncertainties in any fair value measurement technique, and changes in the underlying assumptions used, including discount rates, liquidity risks, and estimates of future cash flows, could significantly affect the fair value measurement amounts.

The majority of the Company's debt has been transacted with HCC.

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### **11. Commitments and Contingencies**

#### ***Lawsuit***

On July 13, 2009, a lawsuit was brought in the Delaware Court of Chancery against each member of the Board of Directors of the Company, Hallmark Cards and its affiliates, as well as the Company as a nominal defendant, by a minority stockholder of the Company regarding the then proposed Recapitalization. The plaintiff is S. Muoio & Co. LLC which owns beneficially approximately 5.8% of the Company's Class A common stock at the time of the complaint, according to the complaint and filings with the SEC. The lawsuit claims to be a derivative action and a class action on behalf of the plaintiff and other minority stockholders of the Company. The lawsuit alleges, among other things, that, the defendants have breached fiduciary duties owed to the Company and minority stockholders in connection with the Recapitalization transactions. The lawsuit includes allegations that the consummation of the Recapitalization transactions would result in an unfair amount of equity issued to the majority stockholders, thereby reducing the minority stockholders' equity and voting interests in the Company, and that the majority stockholders would be able to eliminate the minority stockholders through a short-form merger. The complaint requested the court enjoin the defendants from consummating the Recapitalization transactions and award plaintiff fees and expenses incurred in bringing the lawsuit.

On July 22, 2009, a Stipulation Providing for Notice of Transaction (the "Stipulation") was filed with the Delaware Court of Chancery. The Stipulation provided that the Company could not consummate the transaction contemplated in the Recapitalization transactions until not less than seven weeks after providing the plaintiff with a notice of the terms of the proposed transaction, including copies of the final transaction agreements. If the plaintiff moved for preliminary injunctive relief with respect to any such transaction, the parties would establish a schedule with the Court of Chancery to resolve such motion during the seven week period. In addition, following the decision of the Court of Chancery, the Company would not consummate any transaction for a period of at least one week, during which time any party may seek an expedited appeal. The Stipulation further provided that the plaintiff would withdraw its motion for preliminary injunction filed on July 13, 2009 and that the action would be stayed until the earlier of providing the notice of a transaction or an announcement by the Company that it was no longer considering a transaction.

By a letter of February 28, 2010, the plaintiff in this lawsuit informed the Special Committee of the Board of Directors, which considered and negotiated the Recapitalization, that the plaintiff objected to the proposed recapitalization on the terms set forth in the term sheet dated February 9, 2010. The plaintiff asserted, among other things, that the transactions contemplated by the term sheet would unfairly dilute the economic and voting interests of the Company's minority stockholders, that the transactions should be subject to a vote of the majority of the minority stockholders and that the proposed transactions remain inadequate. The plaintiff indicated that if the Company executed definitive documents for the Recapitalization, the plaintiff would pursue the litigation. The February 26, 2010 agreements executed by the Company for the Recapitalization materially followed the provisions in the earlier term sheet.

Notice of the terms of the proposed Recapitalization, including copies of the executed definitive documents for the Recapitalization, was provided to the plaintiff on March 1, 2010. On March 11, 2010, the plaintiff filed an amended complaint raising similar allegations of breach of fiduciary duty against Hallmark Cards and the director defendants and seeking rescission of the Recapitalization rather than a preliminary injunction enjoining the consummation of the Recapitalization, or alternatively, an award of rescissory damages. The plaintiff also filed a motion for expedited proceedings and a request that the Chancery Court set a trial date sometime in September 2010. Defendants have informed the Court that they do not oppose a trial in August or September 2010 but reserve the right to oppose rescission as an available or proper remedy. On March 23, 2010, the Court notified the parties that the trial was scheduled for September 21, 2010. By July 2010, all depositions and discovery efforts were completed, unless further ordered by the court.

It is not currently possible to predict the outcome of the proceeding discussed above. Legal fees incurred to defend the proceeding will be expensed as incurred.

From time to time, the Company, together with, in some instances, certain of its directors and officers is a defendant or codefendant in various other legal actions involving various claims incident to the conduct of its business.

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### **12. Third Party Indemnity**

In December 2006, the Company sold its film library consisting of domestic rights and certain international ancillary rights to approximately 620 television movies, mini-series and series (the "Crown Library") to RHI Entertainment LLC ("RHI"). As a condition of the sale, the Company agreed to pay up to \$22.5 million for residuals and profit participations related to RHI's domestic exploitation of the Crown Library for a ten-year period ending December 14, 2016. The Company estimated the fair value of this obligation to be approximately \$10.6 million at December 15, 2006, assuming the maximum payout. Any revisions to this estimated liability will be reflected as gain (loss) from sale of film assets in future periods. In 2006, the Company recorded an \$8.2 million gain related to the sale of these film assets.

In December 2009 the Company concluded that payments for residuals and participations under its liability to RHI would occur generally later than originally estimated in December 2006. Accordingly, the Company reduced the carrying amount of the liability by \$682,000 and recognized a corresponding gain from sale of film assets in the accompanying statement of operations. In July 2010, the Company received notification of pending requests for payments of approximately \$8.0 million related to exploitation of the Crown Library through mid-2010. Accordingly, the Company increased the carrying amount of the liability by \$155,000 and recognized a corresponding loss from sale of film assets in the accompanying statement of operations.

Carrying amounts of this liability of \$13.9 million and \$14.1 million as of December 31, 2009, and June 30, 2010, respectively, are included in accrued liabilities on the accompanying consolidated balance sheets. The aggregate amount of payments that the Company will make under this obligation is dependent upon the relative success RHI achieves in exploiting these film assets. However, in no event will the actual cash payments under this obligation exceed \$22.5 million. The timing of such payments is dependent upon not only the timing of RHI's exploitation of these film assets but RHI's administrative processes by which it will request payments from the Company. Accordingly, it is likely that, during the remaining term of this liability, the carrying amount will be adjusted as additional information becomes available to the Company.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

#### **Description of Business and Overview**

##### *Current Business*

We own and operate the Channels. With 89.8 million subscribers (as provided by Nielsen Research) in the United States at June 30, 2010, the Hallmark Channel is the 38<sup>th</sup> most widely distributed advertising-supported cable channel in the United States. At December 31, 2009, the Hallmark Channel was the 38<sup>th</sup> most widely distributed advertising-supported cable channel in the United States with 88.3 million subscribers (as provided by Nielsen Research). For the second quarter of 2010, the Hallmark Channel finished the quarter as the 23<sup>rd</sup> highest rated advertising-supported cable channel for total day household ratings and the 23<sup>rd</sup> highest rated advertising-supported cable channel in prime time as measured by Nielsen Research.

We launched our second 24-hour linear channel, the Hallmark Movie Channel, during the first quarter of 2005. Programming on the Hallmark Movie Channel consists primarily of movies and mini-series. The Hallmark Movie Channel has generated subscriber fees and advertising revenue since 2005. As distribution continues to expand, the financial contribution of the Hallmark Movie Channel may grow, including increases in advertising and subscription revenue. The Hallmark Movie Channel is operated through Crown Media Holdings' existing infrastructure at a small incremental cost. In April 2008, we began distributing the Hallmark Movie Channel HD in high definition format, resulting in additional costs; however, we expect that this additional format will continue to contribute to subscriber growth for the Hallmark Movie Channel. See below for information regarding a high definition version of the Hallmark Channel.

At June 30, 2010, the Hallmark Movie Channel was distributed to over 35.8 million subscribers, an increase of nearly 6.7 million subscribers from 29.1 million at December 31, 2009. This increase in distribution, particularly in certain key markets, and a greater number of advertising spots has contributed to improved Hallmark Movie Channel revenue in 2010 and should continue to do so through the remainder of the year. In the second quarter of 2010, we began selling Hallmark Movie Channel inventory to advertisers based on audience guarantees, which has increased and will continue to increase our ability to grow revenues from that channel.

##### *Current Challenges*

The Company faces numerous operating challenges. Among them are increasing viewership ratings, maintaining and increasing advertising revenue, maintaining and expanding the distribution of the Channels, 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. Our ratings declined from 14<sup>th</sup> in total day viewership and 10<sup>th</sup> for prime time in 2009 to 23<sup>rd</sup> in total day viewership and 23<sup>rd</sup> for prime time in 2010. We believe our ratings are affected by our ability to (i) acquire and produce series and 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 the Hallmark Channel's highest ratings. In the past, the Company has typically incurred additional marketing and promotional expenses surrounding original productions and certain acquired movies to drive higher ratings. Certain acquired series delivered historically strong ratings, but recently they have been part of the decline experienced in viewer ratings. In order to reverse the recent decline in ratings, we plan to continue 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 expenses relating to these actions.

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Our recent agreements with Martha Stewart Living Omnimedia, including the acquisition of exclusive rights to the live daytime lifestyle program The Martha Stewart Show and rights to the extensive library of Martha Stewart branded lifestyle programming, represent a key part of our strategy to attract viewers that appeal to relatively higher CPM advertisers. We introduced this lifestyle programming in various dayparts in the second quarter of 2010, leading to the September 2010 premier of The Martha Stewart Show on the Hallmark Channel. Additionally in September, Hallmark Channel will premier several other original lifestyle shows for the daytime lifestyle block. These program changes have resulted and may result at least initially in reductions in the ratings delivery of the Channel, but our plan is that, over time, these changes will increase our revenue through the delivery of a more targeted demographic and attraction of higher CPM advertisers.

Prior to the second quarter of 2010, the Hallmark Movie Channel had not been the subject of ratings measurement by Nielsen Media Research. Since then, however, the Hallmark Movie Channel has had Nielsen ratings and we have been selling advertising inventory for the Hallmark Movie Channel based on a price per unit of audience measurement.

### *Advertising Revenue*

The overall improvement in the economy during the first six months of 2010 had a favorable impact on cable advertising rates, including the rates for our inventory. Our second quarter scatter market inventory was sold at rates 22% above rates in the second quarter 2009 scatter market and 74% above the rates for second quarter 2010 inventory sold in the upfront. Additionally, direct response rates were down by 11% compared to that inventory sold in the same period of 2009. Although our CPMs (i.e., advertising rates per thousand viewers) in the second quarter of 2010 were higher than the same period of 2009, our delivery of our key demographic, women 25-54, was substantially lower than prior periods. Our demographic delivery in the second quarter of 2010 was lower than the previous quarter and lower than the same period of 2009. This lower demographic delivery more than offset gains in our CPMs resulting in lower advertising revenue in the second quarter of 2010 compared to the second quarter of 2009.

In the 2010/2011 upfront process representing the sale of our inventory for the last quarter of 2010 and the first three quarters of 2011, we entered into agreements with major advertising firms representing approximately 44% of our advertising inventory. In the prior year 2009/2010 upfront we sold approximately 40% of our inventory. The 2010/2011 inventory was sold at CPMs over 20% higher than the inventory sold in the 2009/2010 upfront, including significant increases in rates related to our new lifestyle programming block. The Company will sell the balance of the general rate inventory for the 2010/2011 broadcast season to advertisers that purchase upfront inventory on a calendar year basis, rather than an advertising year basis, and in the scatter marketplace. Additionally, we sold approximately 37% of the Hallmark Movie Channel's available inventory in the 2010/2011 upfront.

Following the upfront period, sales of our general rate, direct response and paid-programming inventory are made closer to the timing of the actual advertisement. As compared to the upfront sales for the same periods, scatters rates in the second quarter of 2010 were 74% higher.

Advertisers with upfront contracts have an option to terminate their contracts, as well as an option to expand the amount of inventory purchased under the contracts. In prior years, cancellations of upfront contracts were unusual. During the twelve months period ended September 2009 comprising the 2008/2009 broadcast season, advertisers canceled approximately 13% of the inventory covered by such contracts. The Company sold the balance of the 2008/2009 general rate inventory, including that resulting from the cancellations, in the scatter market. Advertisers cancelled a total of 3% of the inventory covered by upfront contracts during the second quarter of 2010 as compared to 21% during the second quarter of 2009.

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The Company was able to sell the Martha Stewart programming time block at rates 117% higher than prior year's rates during that same time block.

### *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 June 30, 2010, through December 2023, inclusive of renewal options. Agreements representing an additional 5% of subscribers to the Hallmark Channel will expire prior to December 31, 2010.

Our agreement with National Cable Television Cooperative ("NCTC"), representing approximately 12% of our total Hallmark Channel subscriber base, expired in December 2009. Since then, we entered into a series of extensions with NCTC, the last of which expired May 7, 2010. The Company is currently in negotiations with the National Cable Television Cooperative and anticipates that an agreement will be completed in the third quarter of 2010. In the mean time, we continue to distribute the Channels to NCTC member operators, generally in accordance with the provisions of the most recently expired agreement. Due to lack of an agreement from May 8, 2010, through June 30, 2010, the Company recognized revenue on a cash basis; thus, causing a decrease in advertising revenue during that period.

The universe of cable and satellite TV subscribers in the United States is approximately 104 million homes. The top 30 cable TV networks in the United States, measured by the number of subscribers, have 90 million or more subscribers. Our goal is for the Hallmark Channel to reach 91 million subscribers and the Hallmark Movie Channel to reach 40 million subscribers by the end of 2010.

### *Demographics*

As pay television channels draw audience share, audience demographics (i.e., viewers categorized by characteristics such as age, gender and income) become fragmented. As a result, advertisers are able to target the specific groups of viewers who are most likely to purchase their products by advertising on channels which attract the desired viewer demographic.

We believe that the key demographics for the Hallmark Channel are the viewers in the groups Adults aged 25 to 54 and Women aged 25 to 54. However, the average median age of a viewer of the Hallmark Channel was 59.5 in 2009. In order to achieve our revenue goals, we need to draw in our target audience. Broadcasts of The Martha Stewart Show and other Martha Stewart Living productions on the Hallmark Channel, commencing in September 2010, are key parts of our efforts to attract our target audience over time.

### *Launch of High Definition*

We launched a high definition version of the Hallmark Channel in February 2010. The costs for this launch were approximately \$5.0 million, of which a non-cash charge of \$4.4 million was recognized in December 2009 in connection with the terminations of two existing channel delivery agreements. The Company may also incur additional costs including the cost of converting certain television series to high definition. The launch of a high definition version furthers the Company's efforts to maintain competitiveness.

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### **Revenue from Continuing Operations**

Our revenue consists of subscriber fees and advertising fees.

#### *Subscriber Fees*

Subscriber fees are generally payable to us on a per subscriber basis by pay television distributors for the right to carry our Channels. Rates 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 channel;
- the packaging arrangements for the channel; and
- length of the contract term and other commercial terms.

We are in continuous negotiations with our existing distributors to increase our subscriber base in order to enhance our advertising revenue. We have been subject to past requests by major distributors to pay subscriber acquisition fees for additional subscribers or to waive or accept lower subscriber fees if certain numbers of additional subscribers are provided. We also may help fund the distributors' efforts to market our Channels or we may permit distributors to offer limited promotional periods without payment of subscriber fees.

In the past, we have generally paid certain television distributors up-front subscriber acquisition fees to obtain initial carriage on domestic pay distributor systems. Subscriber acquisition fees that we paid in the past were capitalized and amortized over the contractual term of the applicable distribution agreement as a reduction in subscriber fee revenue. If the amortization expense exceeds the revenue recognized on a per distributor basis, the excess amortization is included as a component of cost of services. 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 Channels are usually offered as one of a number of channels on either a basic tier or part of other program packages and are not generally offered on a stand-alone basis. Thus, while a cable or satellite customer may subscribe and unsubscribe to the tiers and program packages in which one of our Channels is placed, these customers do not subscribe and unsubscribe to our Channels alone. We are not provided with information from the distributors on their overall subscriber churn and in what manner their churn rates affect our subscriber counts; instead, we are provided information on the total number of subscribers who receive the Channels.

Our subscriber count depends on the number of distributors carrying one of our Channels and the size of such distributors as well as the program tiers on which our Channel is carried by these distributors. From time to time, we experience decreases in the number of subscribers as promotional periods end, or as a distributor arrangement is amended or terminated by us or the distributor. The level of subscribers could also be affected by a distributor repositioning our Channels from one tier to another tier. Management analyzes the estimated effect each new or amended distribution agreement will have on revenue and costs. Based upon these analyses, if subscriber acquisition fees are needed, management endeavors to achieve a fair combination of subscriber commitments and subscriber acquisition fees.

#### *Advertising*

Historically, revenue from advertising aired on our channels has contributed more than 75% of our total annual revenue. We earn advertising revenue in the form of spot or general rate advertising, direct response advertising and paid-programming (i.e., "infomercials"). Spot advertisements and direct response advertisements are generally 30 seconds long and are aired during or between licensed program content. Spot advertisements are priced at a rate per thousand viewers and almost always bear the Company's commitment to deliver a specified number of viewers. Our revenue from direct response advertising varies in proportion to the direct sales achieved by the advertiser. It is sold without ratings or product sales commitments. Paid-programming is sold at fixed rates for 30 minute blocks of time, typically airing in the early morning hours. It requires no licensed program content. Our advertising revenue is affected by the mix of these forms of advertising.

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Our rates for spot advertisements are generally calculated on the basis of an agreed upon price per unit of audience measurement in return for a guaranteed commitment by the advertiser. We commit to provide advertisers certain rating levels in connection with their advertising. Advertising rates also vary by time of year due to seasonal changes in television viewership. Revenue is recorded net of estimated delivery shortfalls ("audience deficiency units" or "ADUs"), which are usually settled by providing the advertiser additional advertising time. The remainder of the revenue is recognized as the "make-good" advertising time is delivered in satisfaction of ADUs. Revenue from direct response advertising depends largely upon actions of viewers.

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. We defer a pro rata amount of advertising revenue and recognize a like amount as a liability for programs 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 ADUs 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.

Our channels are broadcast 24 hours per day. Our advertising inventory comprises the commercial load or advertising capacity of the program hours in which we intend to broadcast licensed program content. The volume of inventory that we have available for sale is determined by the number of our channels (*i.e.*, two), our chosen commercial load per hour and the number of broadcast hours in which we air licensed program content. Sales of advertising inventory for cash are decreased by our need to reserve inventory for the use of ADUs.

### **Cost of Services**

Our cost of services consists primarily of the amortization of program license fees; 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 accounting principles generally accepted in the United States requires Crown Media Holdings 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 contained in Item 1 of this Report and "Critical Accounting Policies, Judgments and Estimates" in Item 7 of the Company's Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2009.

### **Effects of Transactions with Related and Certain Other Parties**

In 2010 and in prior years, we entered into a number of significant transactions with Hallmark Cards and certain of its subsidiaries. These transactions include, among other things, trademark licenses, an administrative services agreement, a tax sharing agreement and the Recapitalization, including the loans under the Credit Agreement, a registration rights agreement and a stockholders agreement. For information regarding such transactions and transactions with other related parties, please see "Effects of Transactions with Related and Certain Other Parties" in Item 7 of the Company's Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2009, and "The Recapitalization" in the Company's Schedule 14C Information Statement filed with the SEC on May 21, 2010. Also, please see Notes 1, 5 and 6 of Notes to Unaudited Condensed Consolidated Financial Statements contained in Item 1 of this Report.

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### **Credit Agreement**

Pursuant to the Recapitalization, the Company and HCC entered into a Credit Agreement providing for the restructuring of approximately \$315.0 million principal amount of the HCC Debt into new debt instruments on terms including the following:

- *Maturity:* The maturity of the New Debt will be December 31, 2013.
- *Tranches:* The New Debt includes two tranches:
  - Term A Loan of \$200.0 million is cash pay and bears interest at the rate of 9.5% per annum through December 31, 2011, and 12% thereafter.
  - Term B Loan of \$115.0 million allows PIK through December 31, 2010 and requires interest to be paid in cash only for the quarterly periods beginning on January 1, 2011. The interest rate is 11.5% through December 31, 2011, and 14% thereafter.

The Company has the option to PIK up to three quarterly cash payments in the aggregate for the Term A Loan and the Term B Loan. Contractual PIK payments under the Term B Loan will not reduce the number of optional PIK payments available to the Company, and if the Company opts to PIK both the Term A Loan and the Term B Loan cash payments in a single quarter, then that will count as two of the Company's three quarterly PIK options.

*Default Interest:* The Company will be required to pay interest on its obligations to HCC at an interest rate equal to the original interest rate applicable to such obligations plus 2% if: (i) any amount of principal of the New Debt is not paid when due; (ii) any amount payable under any Fundamental Document (as defined in the Credit Agreement) is not paid when due; or (iii) an Event of Default (as described below) exists.

*Prepayment:* The New Debt is prepayable at any time at par plus accrued interest.

*Mandatory Prepayments:* The following amounts must be used to prepay the New Debt. All net cash proceeds from asset sales or other dispositions, except to the extent such net cash proceeds are reinvested in productive assets of a kind then used or usable in the business of the Company or its subsidiaries within 180 days of the sale or other disposition; 100% of net cash proceeds from equity issuances; 100% of net cash proceeds from debt issuances (exclusive of the bank credit facility); 75% of Excess Cash Flow (as defined in the Credit Agreement); and upon the sale of assets in advance of a condemnation proceeding, or following the occurrence of a casualty or condemnation for which the Company or its subsidiaries have received proceeds, any such proceeds in excess of the amount used to replace the subject assets. Prepayments must be applied in the following order (i) first to PIK interest on the Term A Loan (ii) then to principal on the Term A Loan (iii) then to PIK interest on the Term B Loan, and (iv) finally to principal on the Term B Loan.

*Acceleration:* The principal and interest on the New Debt will become immediately due and payable upon a change in control arising from (i) a Premium Transaction (as described below under "Stockholders Agreement") or (ii) a transaction approved by the Company's Board of Directors. Upon an Event of Default, HCC may declare the principal and interest on the New Debt due and payable, without presentment, demand, protest or other notice.

*Collateral:* The obligations under the Credit Agreement are secured by substantially all of the Company's assets. This security interest is subordinate to the lender's security interest under the bank credit facility.

*Affirmative Covenants:* Under the Credit Agreement, the Company and its subsidiary guarantors will, among other things:

- (i) Provide annual and quarterly financial statements and compliance certificates to HCC.
- (ii) Maintain their corporate existence and material rights, licenses and permits and comply in all material respects with applicable law.

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- (iii) Keep their tangible properties that are material to the business in good repair and working condition and their assets of an insurable character.
- (iv) Provide prompt notice to HCC of material events including any Event of Default, any material adverse change in the party's condition or operations or any event which could reasonably be expected to materially and adversely affect performance of such party's obligations to HCC, result in a Material Adverse Effect (as defined in the Credit Agreement) or otherwise cause the loss of more than 7.5 million subscribers.
- (v) Provide prompt notice to HCC of the institution of any action or investigation by any governmental authority or material development in any action or investigation, which might, if adversely determined, reasonably be expected to have a material adverse effect or otherwise cause the loss of more than 7.5 million subscribers.
- (vi) Upon HCC's request, take all actions necessary to register copyrights or trademarks.
- (vii) Defend the collateral against liens other than permitted encumbrances.
- (viii) Notify HCC of any potential violation of, non-compliance with or potential liability under, any environmental laws which could reasonably be expected to have a material adverse effect.
- (ix) Upon HCC's request, obtain credit ratings issued by Moody's or S&P.

*Negative Covenants:* The Credit Agreement includes restrictions on the ability of the Company and its subsidiary guarantors (the "Credit Parties") to, among other things:

- (i) Incur additional indebtedness, subject to certain exceptions including, but not limited to, indebtedness in respect of secured purchase money financings not to exceed \$30.0 million at any time, ordinary trade payables, indebtedness to another Credit Party and the \$30.0 million revolving credit facility.
- (ii) Incur liens on any collateral, subject to certain exceptions including, but not limited to, subordinated liens in favor of guilds as required by collective bargaining agreements and liens incurred in the ordinary course of business.
- (iii) Incur guaranties, subject to certain exceptions including, but not limited to, certain guaranties that would constitute investments.
- (iv) Make investments or payments, subject to certain exceptions including investments of less than \$5 million in the aggregate to entities that are not wholly-owned subsidiaries, intercompany advances, payments to other Credit Parties and to Hallmark Cards pursuant to the terms of a service agreement.
- (v) Sell, lease, transfer, license, or otherwise dispose of (A) movies or television programs other than in the ordinary course of business (provided that the Company will not be entitled to sell, transfer or alienate its entire interest items of such products with an aggregate value in excess of \$5 million), (B) channels owned or operated by the Credit Parties or (C) other property except de minimus dispositions made in the ordinary course of business.
- (vi) Sell, discount or otherwise dispose of notes, accounts receivable, or other obligations owing to HCC except in the ordinary course of business.
- (vii) Make or incur obligations to make capital expenditures in excess of \$10.0 million for fiscal year 2010, \$5.0 million for fiscal year 2011, \$5.0 million for fiscal year 2012, and \$5.0 million for fiscal year 2013.
- (viii) Amend any material agreement in a manner materially disadvantageous to HCC.

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- (ix) Enter into any agreement prohibiting the creation or assumption of liens upon the properties or assets of the Credit Parties or requiring an obligation to be secured if some other obligation is secured.
- (x) Enter into any interest rate protection agreement or currency agreement other than for bona fide hedging purposes.
- (xi) Permit the Cash Interest Coverage ratio (as defined in the Credit Agreement) of the Company and its consolidated subsidiaries, as at the end of each fiscal quarter, to be less than 2.0:1.0.

*Events of Default:* The Credit Agreement defines "Events of Default" to include the following:

- (i) Any representation or warranty made by any Credit Party in the Credit Agreement, other Fundamental Document or in any document furnished to HCC pursuant to the Credit Agreement or other Fundamental Document, is proven to have been false or misleading in any material respect.
- (ii) Default in the payment of any principal of or interest on the New Debt (subject to a five day grace period) or other fees payable by the Company under the Credit Agreement.
- (iii) Default by any Credit Party in the performance of the covenant requiring notice of material events, any other negative covenant or the requirement to establish the NICC reserve account.
- (iv) Default by any Credit Party in the performance of any other covenant or agreement contained in the Credit Agreement or any Fundamental Document, continuing unremedied for thirty days after the defaulting party obtains knowledge thereof or receives written notice from HCC.
- (v) Default with respect to any indebtedness of any Credit Party in excess of \$1.0 million when due or the performance of any obligation relating to such indebtedness, if the effect is to accelerate or permit the acceleration of the maturity of such indebtedness.
- (vi) Any Credit Party does not pay its debts as they become due or admits in writing its inability to pay its debts, makes a general assignment for the benefit of creditors or is subject of a voluntary or involuntary bankruptcy or similar proceeding.
- (vii) Final judgments for payments in excess of \$1.0 million are rendered in the aggregate against any Credit Party that is not discharged or stayed pending appeal within thirty days from the entry of the judgment.
- (viii) The Credit Agreement or other Fundamental Document ceases to be in full force and effect.
- (ix) The Credit Parties fail to maintain employee benefit plans in accordance with ERISA.
- (ix) The Company defaults on the NICC Preferred Interest and such default is not remedied, cured, waived or consented to within the grace period with respect thereto.
- (xi) Any demand for payment is made pursuant to Hallmark Card's guaranty with respect to the bank credit facility.

### *Stockholders Agreement*

Pursuant to the Recapitalization, the Company, Hallmark Cards and HCC entered into the Stockholders Agreement which provides for, among other things, the following.

*Standstill Provisions:* Hallmark Cards will not, and will cause its controlled affiliates not to, acquire any additional shares of Common Stock (including pursuant to a short form merger) until December 31, 2013 except:

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- (i) acquisitions that are effected with the prior approval of a special committee of the Board of Directors comprised solely of independent, disinterested directors;
- (ii) acquisitions in connection with the conversion of Preferred Stock;
- (iii) in the event that the Company issues additional shares of capital stock, such additional shares as are necessary to ensure that Hallmark Cards continues to hold at least the same percentage of the shares of all classes of the Company's capital stock as Hallmark Cards owned immediately prior to such issuance; and
- (iv) acquisitions effected between January 1, 2012 and December 31, 2013 and either (x) in connection with certain Premium Transactions (as defined below) or (y) pursuant to a tender offer by Hallmark Cards or its affiliates for all of the outstanding shares of Common Stock, provided the holders of Common Stock not affiliated with Hallmark Cards tender, in the aggregate, at least a majority of the shares of Common Stock held by all such stockholders at such time.

"Premium Transaction" means a transaction involving the sale or transfer by HCC of its shares of Common Stock to a third party (by merger or otherwise) in which all stockholders unaffiliated with Hallmark Cards are entitled to participate and are entitled to receive both (i) consideration equivalent in value to the highest consideration per share of Common Stock received by HCC in connection with such transaction, and (ii) a premium of \$0.50 per share of Common Stock (subject to adjustment for any stock splits, combinations, reclassifications, adjustments, sale of Common Stock by the Company, or sale of Common Stock by HCC pursuant to a public offering or block trade as described above, or any similar transaction). For the avoidance of doubt, the aggregate premium shall not exceed \$17,400,880, which is the product of the number of outstanding shares owned by minority stockholders as of the date of the Master Recapitalization Agreement multiplied by \$0.50. Also, for the avoidance of doubt, HCC may effectuate a Premium Transaction pursuant to a short-form merger (or other merger) between the Company and HCC or any purchaser of its shares, so long as the holders of Class A Common Stock not affiliated with HCC receive the consideration provided for in this paragraph in connection with such merger.

*Co-sale Provisions:* Until December 31, 2013, HCC will not sell or transfer its Common Stock to a third party except:

- (i) to an affiliate of Hallmark Cards or pursuant to a bona fide pledge of the shares to a lender that is not an affiliate of Hallmark Cards (collectively, a "Permitted Transfer");
- (ii) with the prior approval of a special committee of the Board of Directors comprised solely of independent disinterested directors; or
- (iii) after January 1, 2012 until December 31, 2013 (x) in a Premium Transaction or (y) pursuant to a public offering or block trade in which to the knowledge of HCC, no purchaser (together with its affiliates and associates) acquires beneficial ownership of a block of shares of the Company in such transaction in excess of 5% (in the case of a public offering) or 2% (in the case of any block trade) of the outstanding Common Stock.

From and after January 1, 2014 until the earlier of December 31, 2020 and such time as Hallmark Cards and its controlled affiliates no longer beneficially own a majority of the Common Stock, HCC will not sell or transfer, in one or a series of related transactions, a majority of the outstanding shares of Common Stock to a third party, unless (x) in a Permitted Transfer, (y) with the prior approval of a special committee of the Board of Directors or (z) all stockholders unaffiliated with Hallmark Cards will at Hallmark Card's option be entitled to either participate in such transaction on the same terms as HCC or receive cash consideration equivalent in value to the highest consideration per share of Common Stock received by HCC in connection with such transaction.

*Subscription Rights:* Except as otherwise set forth below, any time the Company proposes to issue equity securities of any kind, including any warrants, options or other rights to acquire equity securities and debt securities convertible into equity securities ("Proposed Securities"), the Company will:

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- (i) give written notice setting forth in reasonable detail (w) the designation and all of the terms and provisions of the Proposed Securities, including the voting powers, preferences and relative participating, optional or other special rights, and the qualification, limitations or restrictions thereof and interest rate and maturity, (x) the price and other terms of the proposed sale of such securities, (y) the amount of such securities proposed to be issued, and (z) such other information as HCC reasonably requests in order to evaluate the proposed issuance; and
- (ii) offer to issue to HCC or its affiliate a portion of the Proposed Securities equal to a percentage (the "Fully Diluted Ownership Percentage") determined by dividing (x) the number of shares owned by HCC and its affiliates immediately prior to the issuance of the Proposed Securities by (y) the total number of shares of Common Stock then outstanding, including for purposes of this calculation all shares outstanding on a fully diluted basis.

If the Proposed Securities are to be issued to employees of the Company or its affiliates as compensation with the approval of the Board of Directors (the "Employee Proposed Securities"), the Company must comply with the following:

- (i) If the Employee Proposed Securities are shares of capital stock, subject to vesting or other similar conditions ("Restricted Stock"), then HCC and, if applicable, its affiliates have the right to purchase capital stock of the same class as the Restricted Stock but which is not subject to vesting or other similar conditions. HCC or its affiliates may purchase up to the number of shares of capital stock equal to the number of shares of Restricted Stock to be issued multiplied by a fraction, the numerator of which is the Fully Diluted Ownership Percentage and the denominator of which is 100% minus the Fully Diluted Ownership Percentage. The purchase price for such securities will be the fair market value of the Restricted Stock on the date of issuance.
- (ii) If the Employee Proposed Securities are options to acquire capital stock of the Company, then the issuance of the Proposed Securities will be deemed to occur upon the exercise of the options and not upon the issuance of the options, and HCC and, if applicable, its affiliates, will have the right to purchase, prior to the expiration of ten (10) business days after receipt of notice of such exercise from the Company, capital stock of the same class as the underlying security. HCC or its affiliates may purchase up to the number of shares of capital stock equal to the number of shares of the underlying security to be issued upon the exercise of such Employee Proposed Securities multiplied by a fraction, the numerator of which is the Fully Diluted Ownership Percentage and the denominator of which is the quantity 100% minus the Fully Diluted Ownership Percentage. The issuance price will be deemed to be the fair market value of the underlying security on the date of exercise and not the exercise price of the option or right.

If the Proposed Securities are options or rights to acquire capital stock of the Company but are not Employee Proposed Securities, then the issuance of the Proposed Securities will be deemed to occur upon the exercise of the options or rights and not upon the issuance of the options or rights, and HCC and, if applicable, its affiliates have the right to purchase capital stock of the same class as the underlying security. HCC or its affiliates may purchase up to the number of shares of capital stock equal to the number of shares of the underlying security to be issued upon the exercise of such Proposed Securities multiplied by a fraction, the numerator of which is the Fully Diluted Ownership Percentage and the denominator of which is the quantity 100% minus the Fully Diluted Ownership Percentage. The issuance price will be deemed to be the sum of the purchase price for such options or rights, plus any additional consideration paid upon exercise of such options or rights.

HCC and, if applicable, its affiliates, must exercise their purchase rights within ten (10) business days after receipt of such notice from the Company. Upon the expiration of the offering period, the Company will be free to sell such Proposed Securities that HCC and its affiliates have not elected to purchase during the ninety (90) days following such expiration on terms and conditions no more favorable to the purchasers thereof than those offered HCC and its affiliates.

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The majority of the obligations of Hallmark Cards set forth in the Stockholders Agreement will terminate upon a payment default on the New Debt, subject to a 60-day cure period. The Stockholders Agreement also terminates on the earliest of (i) such time as Hallmark Cards and its controlled affiliates cease to hold a majority of the Common Stock, (ii) such time as Hallmark Cards and its affiliates own all of the outstanding Common Stock and (iii) December 31, 2020.

*Inapplicability of Prior Stockholders Agreement:* As a result of the Mergers and the terms of the Stockholders Agreement, Hallmark Cards will no longer be subject to the prior stockholders agreement with the Company. The prior stockholders agreement among the Company and its largest stockholders set forth certain corporate governance rights, and limitations on the Company's ability, directly or indirectly, to enter into any material contracts or transactions with any affiliate of certain stockholders, including a wholly-owned subsidiary of Hallmark Cards, unless certain conditions were met.

### ***Registration Rights Agreement***

In connection with the Recapitalization, the Company, HCC and any prior stockholders of HEIC that execute a joinder are parties to a Registration Rights Agreement (the "Registration Rights Agreement") relating to the shares of Common Stock (i) issued to HCC or any joined party in connection with the Mergers, (ii) issuable to HCC upon conversion of the HCC Debt and upon conversion of the Preferred Stock, (iii) acquired by HCC pursuant to its subscription rights as set forth in the Stockholders Agreement and (iv) issued as a dividend or other distribution with respect to, or in exchange for or in replacement of the shares of Common Stock referred to in clauses (i)—(iii) (the shares described in clauses (i)—(iv) collectively, the "Registrable Securities"). The Registration Rights Agreement grants (i) three (3) demand registration rights exercisable by the holders of a majority of the Registrable Securities, (ii) three (3) resale shelf demand rights exercisable by holders of a majority of the Registrable Securities and (iii) unlimited piggyback rights. The expenses of any of these registrations will be borne by the Company.

### ***Preferred Stock Terms***

In connection with the Recapitalization, the Company issued to HCC 185,000 shares of Preferred Stock. The terms of the Preferred Stock include the following:

*Dividends:* No dividends will accrue or be payable from the date of issue of the Preferred Stock through December 31, 2010. Cumulative dividends will accrue from and after January 1, 2011 through December 31, 2011 at the rate of 14% per annum of the Original Issue Price. The "Original Issue Price" is \$1,000 per share subject to adjustment in the event of any stock dividends, stock splits, stock distributions or combinations and other corporate actions having a similar effect with respect to the Preferred Stock. Cumulative dividends will accrue from and after January 1, 2012 at the rate of 16% per annum of the Original Issue Price. Until December 31, 2014, dividends are payable in cash or in additional shares of Preferred Stock, at the option of the Company. After December 31, 2014, dividends on the Preferred Stock are payable in cash only. The Preferred Stock will participate with the Common Stock as to any declared dividends on an "as converted" basis.

*Optional Conversion:* Each share of Preferred Stock will become and remain convertible at the earlier of December 31, 2013, or upon a payment or refinancing of the New Debt (a "Refinancing") at the option of the holder into a share of Common Stock at the rate equal to the Original Issue Price plus accrued and unpaid cash dividends with respect to such shares of Preferred Stock divided by the Preferred Conversion Price. "Preferred Conversion Price" was \$2.5969 as of the closing of the Recapitalization, which price is subject to adjustments for stock splits, combinations, dividends, mergers, recapitalizations and other corporate actions having a similar effect with respect to the Preferred Stock and other adjustments as provided below under "Anti-Dilution Protection."

*Anti-Dilution Protection:* The Preferred Conversion Price will be subject to adjustment for stock splits, combinations, dividends, mergers, recapitalizations and other corporate actions having a similar effect with respect to the Preferred Stock. The Preferred Conversion Price will also be subject to adjustment on a full-ratchet basis in the event that the Company issues additional shares (other than Board approved employee options or shares in an acquisition, merger or joint venture) at a purchase price less than the prevailing Preferred Conversion Price. Full-ratchet basis means an adjustment of the Preferred Conversion Price to the lowest consideration paid per share for

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the additional shares. Shares subject to options, other rights to acquire and convertible securities are deemed issued at their then exercise or conversion price.

*Mandatory Redemption:* The Company must provide written notice (the "Excess Proceeds Notice") to holders of Preferred Stock, when and as the Company receives, upon a refinancing of the New Debt, net proceeds from such refinancing in excess of the aggregate outstanding principal and interest amounts of New Debt (the "Excess Refinancing Proceeds"). Upon receipt of such notice, the holders of Preferred Stock may elect to apply such Excess Refinancing Proceeds to redeem (to the extent of funds legally available for such redemption) at the Redemption Price a number of the outstanding shares of Preferred Stock. The "Redemption Price" means a price per share equal to the Original Issue Price, plus an amount equal to any accrued but unpaid cash dividends with respect to such share, together with any other dividends declared but unpaid. If the Company receives any such requests, it must redeem on the twentieth day after delivery of the Excess Proceeds Notice, the number of outstanding shares of Preferred Stock set forth in all such notices received by the Company within fifteen days after delivery of the Excess Proceeds Notice. If the Excess Refinancing Proceeds are not sufficient to redeem all shares of Preferred Stock to be redeemed, the Company will redeem a pro rata portion of redeemable shares based on the holders' respective redemption requests.

*Optional Redemption:* The Company will be able to redeem the Preferred Stock at any time, upon 10-days written notice, at the Redemption Price.

*Voting Rights:* The Preferred Stock will vote together with the Common Stock as a single class, with the Preferred Stock voting on an "as converted" basis.

*Protective Provisions:* The consent of holders of more than 50% of the Preferred Stock, voting as a separate class, will be required to approve certain actions, including without limitation:

- (i) Any authorization, offer, sale or issuance of any equity securities pari passu or senior in right of liquidation, dividends or otherwise to the Preferred Stock or any additional shares of Preferred Stock.
- (ii) Repurchase or redemption of equity securities (other than from an employee following termination), or declaration or payment of any dividend on the Common Stock.
- (iii) Any sale, merger, liquidation or dissolution of the Company.
- (iv) Any significant acquisitions involving the payment, contribution or assignment by or to the Company or its subsidiaries of money or assets greater than \$5,000,000.
- (v) Any action that adversely alters or changes the rights, preferences or privileges of the Preferred Stock.
- (vi) The issuance of any additional shares of Common Stock (other than pursuant to options outstanding on the Closing Date) or options or rights to acquire Common Stock.
- (vii) Except for certain indebtedness, liens and guaranties permitted by the Credit Agreement, authorization or issuance of any debt security unless the debt security has received the prior approval of the Board of Directors, or amendment of the terms of any agreement regarding material indebtedness of the Company, unless the amendment has been approved by the Board of Directors.

*Liquidation Preference:* In the event of any liquidation or winding up of the Company, the holders of the Preferred Stock will be entitled to receive, in preference to the holders of the Common Stock, an amount equal to the greater of (x) the Original Issue Price per share plus accrued but unpaid cash dividends thereon, or (y) that amount that would be received by such holders on an "as converted" basis had all Preferred Stock been converted into Common Stock immediately prior to such liquidation or winding up. A consolidation, merger or other form of acquisition of the Company or a sale of all or substantially all of its assets will be deemed to be a liquidation or winding up for purposes of the liquidation preference.

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### *Tax Sharing Agreement*

In connection with the Recapitalization, the tax sharing agreement was amended, effective as of January 1, 2010. The amendment provides, among other things, that:

- Hallmark Cards will not pay any Crown Tax Benefits (defined in the tax sharing agreement) in cash and instead will carry forward any such amounts to offset future Crown Tax Liability (defined in the tax sharing agreement);
- the Company is allowed to deduct both cash-pay and pay-in-kind, or PIK, interest due to Hallmark Cards in calculating tax-sharing payments;
- the conversion of the HCC Debt pursuant to the Recapitalization is not deemed the payment of interest expense to Hallmark Cards;
- cancellation of indebtedness income resulting from the Recapitalization will be excluded from the calculation of tax sharing payments for the 2010 tax year; and
- any amounts related to taxes owed to Hallmark Cards prior to December 31, 2009, was included in the HCC Debt.

### **Selected Historical Consolidated Financial Data of Crown Media Holdings**

In the table below, we provide selected historical condensed consolidated financial and other data of Crown Media Holdings and its subsidiaries. The following selected condensed consolidated statement of operations data for three and six months ended June 30, 2009 and 2010, are derived from the unaudited financial statements of Crown Media Holdings and its subsidiaries. Ratings and subscriber information also are unaudited. This data should be read together with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q.

	<b>Three Months Ended June 30,</b>		<b>Percent Change</b>	<b>Six Months Ended June 30,</b>		<b>Percent Change</b>
	<b>2009</b>	<b>2010</b>		<b>2009</b>	<b>2010</b>	
<b>Revenues:</b>						
Subscriber fees	\$ 15,860	\$ 15,872	0%	\$ 31,155	\$ 32,866	5%
Advertising	51,921	49,826	-4%	107,215	101,136	-6%
Sublicense fees and other revenue	401	11	-97%	764	85	-89%
<b>Total revenues</b>	<b>68,182</b>	<b>65,709</b>	<b>-4%</b>	<b>139,134</b>	<b>134,087</b>	<b>-4%</b>
<b>Cost of Services:</b>						
Programming costs	31,301	30,214	-3%	63,516	59,371	-7%
Operating costs	4,488	2,713	-40%	8,500	5,410	-36%
<b>Total cost of services</b>	<b>35,789</b>	<b>32,927</b>	<b>-8%</b>	<b>72,016</b>	<b>64,781</b>	<b>-10%</b>
Selling, general and administrative expense	11,195	12,642	13%	23,759	25,053	5%
Marketing expense	842	464	-45%	5,617	1,437	-74%
Loss from sale of film assets	—	155	100%	—	155	100%
Income before interest and income tax expense	20,356	19,521	-4%	37,742	42,661	13%
Interest expense	(25,678)	(25,606)	0%	(50,515)	(51,070)	1%
Income tax expense	—	(2,897)	100%	—	(2,897)	100%
<b>Net loss</b>	<b>\$ (5,322)</b>	<b>\$ (8,982)</b>	<b>69%</b>	<b>\$ (12,773)</b>	<b>\$ (11,306)</b>	<b>-11%</b>
<b>Other Data:</b>						
Net cash provided by operating activities	\$ 13,767	\$ 21,017	53%	\$ 13,382	\$ 28,788	115%
Net cash used in investing activities	\$ (344)	\$ (715)	108%	\$ (648)	\$ (1,112)	72%
Net cash used in financing activities	\$ (11,905)	\$ (18,725)	57%	\$ (8,644)	\$ (19,940)	131%
Total domestic day household ratings (1)(3)	0.541	0.392	-28%	0.588	0.445	-24%
Total domestic primetime household ratings (2)(3)	0.871	0.662	-24%	1.016	0.738	-27%
Subscribers at period end	86,228	89,780	4%	86,228	89,780	4%

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- (1) Total day is the time period measured from the time each day the broadcast of commercially sponsored programming commences to the time such commercially sponsored programming ends.
- (2) Primetime is defined as 8:00 - 11:00 P.M. in the United States.
- (3) These Nielsen ratings are for the time period April 1 through June 30 and January 1 through June 30.

### ***Results of Operations***

#### *Three Months Ended June 30, 2009, Compared to Three Months Ended June 30, 2010*

**Revenue.** Our revenue, comprised primarily of subscriber and advertising fees, decreased \$2.5 million or 3% in 2010 over 2009. Our subscriber fee revenue remained constant. The amount of subscriber acquisition fees that was recorded as a reduction of subscriber fee revenue was approximately \$651,000 and \$526,000 for 2009 and 2010, respectively. The increase in subscriber revenue due to small contractual rate increases and significant growth in Hallmark Movie Channel subscribers was wholly offset by the accounting treatment of subscriber revenue for one multiple systems operator.

The \$2.1 million or 4% decrease in advertising revenue is primarily due to declines in viewer ratings across demographic categories for 2010 compared to 2009. The ratings decline reduced the revenue from all inventory, including inventory used to satisfy deficiencies in audience delivery. Audience deficiency unit revenue decreased \$3.9 million from contra-revenue of \$3.0 million for 2009, to contra-revenue of \$6.9 million for the same period in 2010 as a result of such ratings declines, leading to a corresponding decrease in revenue recognized by the Company. CPM rates in the second quarter of 2010 increased by approximately 5% over the same period of 2009, thereby increasing revenues. However, the increase in CPM rates was more than offset by the decline in ratings which reduced the value of the Company's inventory.

We believe that changes to our program schedule in 2009 and through the second quarter of 2010, along with increased competition (including the availability of high definition distribution by competitors), contributed to a decline in ratings on the Hallmark Channel. From 2005 until early 2009, our programming schedule did not change significantly. Beginning in 2008, a number of programs that had previously received strong ratings began to experience ratings declines, and we placed television series in certain timeslots instead of movies or original productions. Also, a number of programs in the schedule provided strong household ratings performance but less effective delivery of our key demographic, women age 25-54. In 2009, we began to introduce new content into the schedule with the objective of increasing the delivery of women 25-54. The schedule changes likely resulted in some viewer confusion, resulting in lower ratings. We will continue to focus on program acquisitions, original program production and schedule changes that are intended to improve both the viewer ratings and the demographic delivery of the Hallmark Channel.

The fact that Hallmark Channel was not broadcast in high definition may have had a negative impact on ratings in 2009. Of the top 44 advertising supported cable networks with a 0.4 household rating or higher in prime time, only six of those networks (including Hallmark Channel) were not offered in high definition. Of those six networks, three experienced double-digit ratings decreases in 2009 compared to 2008 and three experienced single digit increases. In 2009, 33% of viewers with access to high definition programming services tuned to those high definition services first. The growth in popularity of high definition programming is expected to continue in 2010

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and beyond, and these high definition trends were part of our decision to launch Hallmark Channel in high definition in February 2010.

In 2009, competition within the cable television industry increased significantly. The number of cable networks investing in original programming increased 74% in 2009 compared to 2008, and, for the full year 2009, acquired (non-original) programming represented only 33% of prime time cable programming. The increase in cable networks' investment in original programming continues in 2010, and we believe it continues to negatively impact our ratings. Although Hallmark Channel continues to invest in original programming, our increase in investment for original content did not match the growth of the market or many of our competitors. The impact of the programming competition is heightened by the continued growth of time-shifting digital video recording devices, or DVR's. With the proliferation of these devices, viewers are able to increase their access to the new, compelling content.

For the three months ended June 30, 2010, Nielsen ranked the Hallmark Channel 23<sup>rd</sup> in total day viewership with a 0.392 household rating and 23<sup>rd</sup> in primetime with a 0.662 household rating among the 78 cable channels in the United States market.

*Cost of services.* Cost of services as a percent of revenue decreased to 50% in 2010 as compared to 52% in 2009. This decrease results primarily from the effects of the 3% decrease in programming costs, discussed below, offset in part by the 4% decrease in advertising revenue discussed above.

Programming costs decreased \$1.1 million or 3% from 2009. During 2009 and through the second quarter of 2010, except for Martha Stewart programming, we did not enter into any significant new third party license agreements. As a result, expiring program rights and the related amortization were not replaced in full with assets and amortization from newer license agreements. At this time, we do not expect significant program acquisitions for the rest of 2010.

Operating costs for 2010 decreased \$1.8 million over 2009. The Company's bad debt expense was \$271,000 for 2009, as compared to \$6,000 for 2010. The decrease in bad debt expense is primarily due to certain advertising customers experiencing cash flow problems under generally poor economic conditions during 2009 and being unable to make timely payments. Additionally, salary and severance expense decreased \$1.1 million due to terminations of employment and transponder and uplink expense decreased \$364,000 due to contract termination.

We may incur additional costs subsequent to June 30, 2010, to obtain high definition versions of certain of our programming.

*Selling, general and administrative expense.* Our selling, general and administrative expense for 2010 increased \$1.5 million over 2009. Salary and severance expense decreased \$3.4 million primarily due to terminations of employment in 2009. Additionally, commission expense increased \$592,000 due to meeting quarterly advertising revenue expectations. Research expense increased \$1.3 million due to the receipt of ratings for the Hallmark Movie Channel. Benefits expense increased \$1.6 million due to an increase in bonus expense and an increase in insurance premiums. Additionally, the Company recorded \$1.0 million of debt issuance costs in conjunction with the Recapitalization.

*Marketing expense.* Our marketing expense decreased 45% in the second quarter of 2010 versus the second quarter of 2009. The Company decreased its marketing spend in 2010 in part due to lower than expected advertising revenue and planned 2010 cost cutting measures, but is also waiting to allocate marketing resources towards the third quarter launch of the Martha Stewart programming. Marketing expenses are expected to increase during the third quarter of 2010 to promote the Hallmark Channel's programming schedule, including the recently acquired Martha Stewart Living productions.

*Loss from sale of film assets.* In June 2010, the Company concluded that payments for residuals and participations, which are liabilities from the Company's December 2006 sale of its film assets, would occur generally sooner than originally estimated in December 2006 and December 2009 based upon a request for payment received in July 2010. Accordingly, the Company increased the carrying amount of the liability by \$155,000 and

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recognized a corresponding loss from sale of film assets in the accompanying statement of operations.

*Interest expense.* Interest expense remained constant period over period. The principal balance under our credit facility was \$20.3 million at June 30, 2009, and \$0 at June 30, 2010. Interest rates on our 2001, 2005 and 2006 notes decreased from 6.19% at June 30, 2009, to 5.29% at June 29, 2010. The benefit of these rate decreases was offset by a higher principal balance on the Senior Secured Note, resulting in interest expense for 2010 being nearly the same as for 2009.

*Income tax expense.* For tax purposes, the Recapitalization generated cancellation of debt income which is currently estimated at approximately \$200.0 million. Accordingly, the Company is expected to generate 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 can be used against AMT income but are limited to 90% of AMT income. As a result, the Company has recorded an income tax expense of \$2.9 million for the estimated AMT in its consolidated statements of operations as it is not likely that any benefit of this AMT as a credit carryforward will be realized.

### *Six Months Ended June 30, 2009, Compared to Six Months Ended June 30, 2010*

*Revenue.* Our revenue, comprised primarily of subscriber and advertising fees, decreased \$5.1 million or 4% in 2010 over 2009. Our subscriber fee revenue increased \$1.7 million or 5%. The amount of subscriber acquisition fees that was recorded as a reduction of subscriber fee revenue was approximately \$1.3 million and \$1.1 million for 2009 and 2010, respectively. Subscriber revenue increased in 2010 primarily due to small contractual rate increases and significant growth in Hallmark Movie Channel subscribers.

The \$6.1 million or 6% decrease in advertising revenue is primarily due to declines in viewer ratings across demographic categories for 2010 compared to 2009. For the six months ended June 30, 2010, Nielsen ranked the Hallmark Channel 24<sup>th</sup> in total day viewership with a 0.445 household rating and 23<sup>rd</sup> in primetime with a 0.738 household rating among the 78 cable channels in the United States market. The ratings decline reduced the revenue from all inventory, including inventory used to satisfy deficiencies in audience delivery. Audience deficiency unit revenue decreased \$6.4 million from contra-revenue of \$4.9 million for 2009, to contra-revenue of \$11.2 million for the same period in 2010 as a result of such ratings declines, leading to a corresponding decrease in revenue recognized by the Company.

*Cost of services.* Cost of services as a percent of revenue decreased to 48% in 2010 as compared to 52% in 2009. This decrease results primarily from the effects of the \$4.1 million or 7% decrease in programming costs, discussed below, offset in part by the 6% decrease in advertising revenue discussed above.

Operating costs for 2010 decreased \$3.1 million over 2009 due in part to the \$861,000 decrease in bad debt expense. The Company's bad debt expense was \$893,000 for 2009, as compared to \$32,000 for 2010. The decrease in bad debt expense is primarily due to certain advertising customers experiencing cash flow problems under generally poor economic conditions during 2009 and being unable to make timely payments. Additionally, salary and termination expense decreased \$1.3 million and playback and transponder expense decreased \$630,000 due to terminations of employment and standard definition provider contracts in 2009.

*Selling, general and administrative expense.* Our selling, general and administrative expense for 2010 increased \$1.5 million over 2009. Salary and severance expense decreased \$3.8 million primarily due to terminations of employment in 2009. Additionally, commission expense increased \$390,000 due to meeting quarterly advertising revenue expectations. Research expense increased \$1.4 million due to the receipt of ratings for the Hallmark Movie Channel. Benefits expense increased \$2.2 million due to an increase in bonus expense and an increase in insurance premiums. Additionally, the Company recorded \$1.0 million of debt issuance costs in conjunction with the Recapitalization.

*Marketing expense.* Our marketing expense decreased 74% in 2010 versus 2009. During 2009, the Company had one significant marketing promotion in January 2009 centered on the original movie, "Taking a Chance on Love." The Company did not have a significant marketing promotion in the first quarter of 2010.

*Interest expense.* Interest expense remained constant period over period.

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### **Liquidity and Capital Resources**

During the six months ended June 30, 2009, our cash provided by operating activities was \$13.4 million as compared to \$28.8 million for the six months ended June 30, 2010. The Company's net loss for the six months ended June 30, 2010, decreased \$1.5 million to \$11.3 million from \$12.8 million for the six months ended June 30, 2009. Our depreciation and amortization expense for the six months ended June 30, 2010 decreased \$4.3 million to \$62.0 million from \$66.3 million in 2009. The Company made programming payments of \$73.2 million and \$67.8 million during the six months ended June 30, 2009 and 2010, respectively.

Cash used in investing activities was \$648,000 and \$1.1 million during the six months ended June 30, 2009 and 2010, respectively. During the six months ended June 30, 2009 and 2010, we purchased property and equipment of \$194,000 and \$600,000, respectively. During the six months ended June 30, 2009 and 2010, the Company paid \$454,000 and \$512,000, respectively, to the buyer of the international business for amounts due under the terms of the sale agreement, primarily for reimbursement of transponder lease payments. The related liability was recognized in 2005 as part of the sale of our international business.

Cash used in financing activities was \$8.6 million and \$19.9 million for the six months ended June 30, 2009 and 2010. We borrowed \$18.1 million and \$0 under our credit facility to supplement the cash requirements of our operating and investing activities during the six months ended June 30, 2009 and 2010, respectively. We repaid principal of \$26.3 million and \$1.0 million under our bank credit facility during the six months ended June 30, 2009 and 2010, respectively. Also, during the second quarter of 2010, pursuant to provisions of the Recapitalization, the Company sequestered \$15.0 million, which is now restricted to the payment of the NICC preferred interest on or before December 31, 2010. The Company has since been able to increase the amount of these restricted funds to \$20.0 million at July 31, 2010.

The Company expects to make a cash payment for amounts due through third quarter of 2010 on December 15, 2010, for tax liabilities incurred under the tax sharing agreement as amended. The Company may also have to make cash payments to Hallmark Cards during 2011 under the amended tax sharing agreement.

#### *Cash Flows*

As of June 30, 2010, the Company had \$18.2 million in cash and cash equivalents on hand. Also available to the Company was the full \$30.0 million bank credit facility which expires June 30, 2011. Day-to-day cash disbursement requirements have typically been satisfied with cash on hand and operating cash receipts supplemented with the borrowing capacity available under the bank credit facility and, prior to the Recapitalization, forbearance by Hallmark Cards and its affiliates.

The Company's management anticipates that the principal uses of cash during the twelve month period ending June 30, 2011, will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, and interest of approximately \$30.0 million to \$35.0 million due under the New Debt issued in the Recapitalization. Subject to the legal availability of funds and approval by the Company's board of directors, the Company may also pay approximately \$13.0 million for cash dividends on Preferred Stock during the six months ending June 30, 2011; at the option of the Company's board of directors, such dividends, if any, may be paid in the form of additional shares of Preferred Stock.

Increases in the Company's audience deficiency liability during the six month periods ended June 30, 2009, and June 30, 2010, contributed \$4.9 million and \$11.1 million, respectively, to cash flows from operating activities (reflected as part of the changes in accounts payable, accrued and other liabilities in the accompanying condensed consolidated statements of cash flows included in Part I of this report). At June 30, 2010, the Company's audience deficiency liability was \$29.0 million, an amount equivalent to 13.0% of advertising revenue for the year ended December 31, 2009. Settlement of any portion of this liability will not require the direct use of cash because it is the Company's policy to settle in kind. However, such settlement

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requires the use of advertising spots that otherwise may be sold for cash. Accordingly, any decrease in this liability will indirectly require the use of cash with little or no corresponding effect on reported advertising revenue.

At June 30, 2010, the Company also had an additional \$15.0 million of cash, the use of which is restricted to payment of the \$25.0 million company obligated, mandatorily redeemable preferred interest on December 31, 2010. As of July 31, 2010, the Company had increased such restricted cash to \$20.0 million. The Company believes that it will be able to fund all, or substantially all, of the remaining \$5.0 million with cash provided by operating activities.

### **Risk Factors and Forward-Looking Statements**

The discussion set forth in this Form 10-Q contains statements concerning potential future events. Such forward-looking statements are based on assumptions by Crown Media Holdings management, as of the date of this Form 10-Q including assumptions about risks and uncertainties faced by Crown Media Holdings. Readers can identify these forward-looking statements by their use of such verbs as "expects," "anticipates," "believes," or similar verbs or conjugations of such verbs. If any of management's assumptions prove incorrect or should unanticipated circumstances arise, Crown Media Holdings' 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 this Report below and in the Company's filings with the Securities and Exchange Commission, including the Risk Factors stated in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, and this Report. Such Risk Factors include, but are not limited to, the following: competition for distribution of channels, viewers, advertisers and the acquisition of programming; fluctuations in the availability of programming; fluctuations in demand for programming which we air on our channels; our ability to address our liquidity needs; our incurrence of losses; and our substantial indebtedness affecting our financial condition and results.

### **Available Information**

**We will make available free of charge through our website, [www.hallmarkchannel.com](http://www.hallmarkchannel.com), the 2009 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.**

**Additionally, we will make available, free of charge upon request, a copy of our Code of Business Conduct and Ethics, which is applicable to all of our employees, including our senior financial officers. Requests for a copy of this code should be addressed to the General Counsel at 12700 Ventura Boulevard, Studio City, California 91604.**

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

We only invest in instruments that meet high credit and quality standards, as specified in our investment policy guidelines. These instruments, like all fixed income instruments, are subject to interest rate risk. The fixed income portfolio will decline in value if interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels as of June 30, 2010, the decline of the fair value of the fixed income portfolio would not be material.

As of June 30, 2010, our cash, cash equivalents and short-term investments had a fair value of \$33.2 million (including restricted cash) and were invested in cash and short-term commercial paper. The primary purpose of these investing activities has been to preserve principal until the cash is required to fund operations and to fund the \$25.0 mandatorily redeemable preferred interest amount payable in December 2010. Consequently, the size of this

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portfolio fluctuates significantly as cash is provided by and used in our business.

The value of certain investments in this portfolio can be impacted by the risk of adverse changes in securities and economic markets and interest rate fluctuations. For the three and six months ended June 30, 2010, the impact of interest rate fluctuations, changed business prospects and all other factors did not have a material impact on the fair value of this portfolio, or on our income derived from this portfolio.

We have not used derivative financial instruments for speculative purposes. As of June 30, 2010, we are not hedged or otherwise protected against risks associated with any of our investing or financing activities.

### ***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.

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

Our material interest bearing assets consisted of cash equivalents and short-term investments. The balance of our interest bearing assets was \$33.2 million (including restricted cash), or 5% of total assets, as of June 30, 2010. Our material liabilities subject to interest rate risk consisted of our bank credit facility, our old note and interest payable to HCC, and our old notes and interest payable to HCC. The balance of those liabilities was \$0, or 0% of total liabilities, as of June 30, 2010. Net interest expense for the three and six months ended June 30, 2010, was \$25.6 million, or 39%, and \$51.1 million, or 38%, of our total revenue, respectively. Our net interest expense for these liabilities is sensitive to changes in the general level of interest rates, primarily U.S. and LIBOR interest rates. In this regard, changes in U.S. and LIBOR ("Eurodollar") interest rates affect the fair value of interest bearing liabilities.

If market interest rates were to increase or decrease by 1% from the rates discussed in Notes 4 and 5 to the financial statements as of June 30, 2010, our interest expense for the three and six months would change by \$852,000 and \$1.7 million, respectively. See Notes 4 and 5 to the Unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 above.

## **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 of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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### ***b. Changes in Internal Control over Financial Reporting***

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2010, that materially affected, or was reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For information regarding a lawsuit concerning the Company's proposed Recapitalization, please see Note 11 to the Unaudited Condensed Consolidated Financial Statements contained in Item 1 of this Report.

### **Item 1A. Risk Factors**

#### ***Changes in programming may cause temporary or long-term ratings declines.***

Our success depends partly upon unpredictable and volatile factors beyond our control, such as viewer preferences, competing programming and the availability of other entertainment activities. We may not be able to anticipate and react effectively to shifts in tastes and interests in our markets. Our competitors may have greater numbers of original productions, better distribution, and greater capital resources, and may be able to react more quickly to shifts in tastes and interests. As a result, we may be unable to maintain the commercial success of any of our current programming, or to generate sufficient demand and market acceptance for our new programming. A shift in viewer preferences in programming or alternative entertainment activities could also cause a decline in both advertising and subscriber fees revenue.

We anticipate making changes to our programming. These program changes may result at least initially in reductions in the ratings delivery of the Channel, but our plan is that, over time, these changes will increase our revenue through the delivery of a more targeted demographic and attraction of higher CPM advertisers. We must successfully implement the programming changes with an increase in ratings, which is uncertain, or otherwise address the decrease in ratings in order to maintain or increase our advertising revenues, to maintain subscriber fees and to maintain or improve our cash flow from operations.

### **Item 5. Other Information**

On August 10, 2010, the Company appointed Michael Harmon, age 48, as interim Chief Financial Officer of the Company, effective August 23, 2010. Mr. Harmon has served as Vice President and Controller of the Company since March 2003. Mr. Harmon was Controller of the Company from June 2000 to March 2003 and, prior to that, Director from January 1997 to June 2000.

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### Item 6. Exhibits

#### INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit Title</u>
2.4	Agreement and Plan of Merger of Crown Media Holdings, Inc. and Hallmark Entertainment Investments Co., dated as of February 26, 2010 (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
2.5	Agreement and Plan of Merger of Crown Media Holdings, Inc. and Hallmark Entertainment Holdings, Inc., dated as of February 26, 2010 (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to our Registration Statement on Form S-1/A (Amendment No. 2), Commission File No. 333-95573, and incorporated herein by reference).
3.2	Amendment to the Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q filed on July 31, 2001 (File No. 000-30700; Film No. 1693331) and incorporated herein by reference).
3.3	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).
3.4	Second Amended and Restated Certificate of Incorporation of Crown Media Holdings (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
3.5	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 an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
3.6	Proposed form of 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).
10.1	Amendment No. 16, dated as of March 2, 2010, to the Credit, Security, Guaranty and Pledge Agreement, dated as of August 31, 2001 among Crown Media Holdings, Inc. as Borrower, the Guarantors named therein, and JP Morgan Chase Bank as Administrative Agent and as Issuing Bank (previously filed as Exhibit 10.26 to our Annual Report on Form 10-K filed on March 4, 2010 and incorporated herein by reference).
10.2	Amendment No. 17, dated as of June 29, 2010, to the Credit, Security, Guaranty and Pledge Agreement, dated as of August 31, 2001 among Crown Media Holdings, Inc. as Borrower, the Guarantors named therein, and JP Morgan Chase Bank as Administrative Agent and as Issuing Bank.
10.3	Waiver to the Trademark License Extension Agreement (Hallmark Channel and Hallmark Movie Channel) dated March 3, 2010, by and between Hallmark Licensing Inc. and Crown Media United States, LLC (previously filed as Exhibit 10.46 to our Annual Report on Form 10-K filed on March 4, 2010 and incorporated herein by reference).
10.4	Intercompany Services Extension Agreement, dated as of January 1, 2010, by and between Hallmark Cards, Incorporated and Crown Media Holdings, Inc. (previously filed as Exhibit 10.58 to our Annual Report on Form 10-K filed on March 4, 2010 and incorporated herein by reference).
10.5	Master Recapitalization Agreement by and among Hallmark Cards, Incorporated, H C Crown Corp., Hallmark Entertainment Holdings, Inc., Crown Media Holdings, Inc., Crown Media United States, LLC, and The Subsidiaries of Crown Media Holdings, Inc. Listed as Guarantors on the Credit Facility, dated as of February 26, 2010 (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
10.6	Credit Agreement, dated June 29, 2010, Among Crown Media Holdings, Inc. as Borrower and HC Crown Corp., as Lender and Each of the Credit Parties Identified on the Signature Pages

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	Hereto (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
10.7	Stockholders Agreement, dated June 29, 2010, by and among H C Crown Corp., Hallmark Cards, Incorporated and Crown Media Holdings, Inc. (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
10.8	Registration Rights Agreement, dated June 29, 2010, among H C Crown Corp., any Other HEIC Stockholder and Crown Media Holdings, Inc. (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
10.9	Amendment No. 2 to Federal Income Tax Sharing Agreement, dated June 29, 2010, between Hallmark Cards, Incorporated and Crown Media Holdings, Inc. (previously filed as an exhibit to our Schedule 14C Information Statement filed on May 21, 2010 and incorporated herein by reference).
10.10	Amendment by letter dated March 19, 2010 to Master Recapitalization Agreement.
10.11	Security Agreement, dated June 29, 2010, between the Company and HCC.
10.12	Pledge Agreement, dated June 29, 2010, between the Company and HCC.
10.13	Trademark License Extension Agreement (Hallmark Channel) dated June 29, 2010 by and between Hallmark Licensing Inc. and Crown Media United States, LLC.
10.14	Trademark License Extension Agreement (Hallmark Movie Channel) dated June 29, 2010 by and between Hallmark Licensing Inc. and Crown Media United States, LLC.
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	Section 1350 Certifications.

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\*Management contract or compensating plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

CROWN MEDIA HOLDINGS, INC.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
By: <u>/s/ WILLIAM J. ABBOTT</u> William J. Abbott	Principal Executive Officer	August 12, 2010
By: <u>/s/ BRIAN C. STEWART</u> Brian C. Stewart	Principal Financial and Accounting Officer	August 12, 2010

AMENDMENT NO. 17 dated as of June 29, 2010 (this "Amendment") to the Credit, Security, Guaranty and Pledge Agreement dated as of August 31, 2001 as amended by Amendments 1 through 15 thereto, dated as of December 14, 2001, December 31, 2001, March 29, 2002, May 14, 2002, February 5, 2003, August 4, 2003, October 28, 2004, March 1, 2005, March 21, 2006, April 28, 2006, December 8, 2006, March 2, 2007, July 27, 2007, March 10, 2008, March 2, 2009 and March 2, 2010, among Crown Media Holdings, Inc. (the "Borrower"), the Guarantors named therein, the Lenders referred to therein and JPMorgan Chase Bank, N.A. (formerly known as JPMorgan Chase Bank), as Administrative Agent and as Issuing Bank for the Lenders (the "Agent") (as the same may be further amended, supplemented or otherwise modified, the "Credit Agreement").

INTRODUCTORY STATEMENT

WHEREAS, the Lenders have made available to the Borrower a credit facility pursuant to the terms of the Credit Agreement;

WHEREAS, the Borrower intends to effectuate a recapitalization of its intercompany Indebtedness pursuant to a Master Recapitalization Agreement dated as of February 26, 2010 among Hallmark Cards, HCC and certain other parties pursuant to which, among other things, it is contemplated that various of the Borrowers' Subordinated Debt to HCC and its Affiliates will be converted into reduced intercompany Indebtedness, common stock and preferred stock;

WHEREAS, in connection with a condition precedent to the effectiveness of the Recapitalization Agreement, the Borrower has requested that the Maturity Date of the Credit Agreement be extended from August 31, 2010 to June 30, 2011.

WHEREAS, the Administrative Agent and each of the Lenders have agreed to make certain modifications to the Credit Agreement in order to accommodate the items described in the preceding recitals.

NOW THEREFORE, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms used herein and not otherwise defined herein shall have the meaning given them in the Credit Agreement.

Section 2. Amendments to Credit Agreement. Upon the Amendment Effective Date (as defined below):

(A) the Credit Agreement is hereby amended by (i) inserting all of the words and/or provisions which appear with computerized underscoring in the document annexed hereto

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as Exhibit A and (ii) deleting each of the words and/or provisions which appear with computerized strike-through in the document annexed hereto as Exhibit A (with the Credit Agreement as to be so amended reflecting the changes set forth on Exhibit A referred to herein as the "Revised Credit Agreement"). It is understood and agreed that this Amendment and the marked document attached hereto as Exhibit A intentionally omit Section 4.1 and all of the pre-existing Exhibits to the Credit Agreement, which shall be unaffected by this Amendment;

(B) Schedules 3.1, 3.6(a), 3.6(b), 3.7(a), 3.7(b), 3.8, 3.10, 3.11, 3.17, 3.18(a), 3.18(b), 3.18(c), 3.23, 3.25 and 8.3 of the Credit Agreement are hereby replaced with Schedules 3.1, 3.6(a), 3.6(b), 3.7(a), 3.7(b), 3.8, 3.10, 3.11, 3.17, 3.18(a), 3.18(b), 3.18(c), 3.23, 3.25 and 8.3, respectively, to this Amendment, which replacement schedules reflect the Equity Interests of the Credit Parties on a pro forma basis upon the consummation of the Recapitalization and the intercompany mergers contemplated in connection therewith;

(C) The Hallmark Cards Subordination and Support Agreement is hereby terminated;

(D) Notwithstanding anything to the contrary in the Credit Agreement, the Required Lenders consent to the merger of Hallmark Holdings and Hallmark Entertainment Investments Co. with and into the Borrower in connection with the Recapitalization (as defined in the Revised Credit Agreement);

(E) An Exhibit T is hereby added to the Credit Agreement ["Recapitalized Debt Intercreditor Agreement"] in the form of Exhibit T to this Agreement, and the Table of Contents of the Credit Agreement is hereby updated as appropriate;

(F) A Schedule 3.17B ["Material Affiliate Transactions"] is hereby added to the Credit Agreement in the form of Schedule 3.17B to this Amendment, and the Table of Contents of the Credit Agreement is hereby updated as appropriate.

Section 3. Conditions to Effectiveness. The effectiveness of this Amendment is subject to the satisfaction in full of each of the conditions precedent set forth below (the date on which all such conditions have been satisfied being herein called the "Amendment Effective Date"):

(A) the Agent shall have received counterparts of this Amendment which, when taken together, bear the signatures of the Borrower, Hallmark Cards, each Guarantor and each of the Lenders;

(B) the Agent shall have received for the account of the Lenders a fee of \$25,000 in consideration for the extensions of the Maturity Date to be implemented hereunder;

(C) the representations and warranties in Section 4 hereof shall be true on the Amendment Effective Date as if made on such date;

(D) all legal matters incident to this Amendment shall be satisfactory to Morgan, Lewis & Bockius, LLP, counsel for the Agent;

(E) the Agent has received a fully-executed Recapitalized Debt Intercreditor Agreement in the form of Exhibit T to this Amendment;

(F) the prior or simultaneous consummation of the Recapitalization on terms and conditions satisfactory to the Agent including that (i) criteria set forth under the definition of Recapitalization as set forth in the Revised Credit Agreement are satisfied in connection therewith, (ii) that each Recapitalization Credit Document (as defined in the Revised Credit Agreement) is satisfactory in form and substance to the Agent; and (iii) the Agent is satisfied with any and all liabilities of Hallmark Holdings and Hallmark Entertainment Investments Co., who are contemplated to be merged with and into the Borrower in connection with the consummation of the Recapitalization;

(G) the Agent shall have received evidence satisfactory to it that Hallmark Cards and/or its Affiliates shall have, pursuant to documentation satisfactory to the Administrative Agent, extended through no earlier than the Maturity Date (as the same is being extended in the Revised Credit Agreement) the license agreement which provides the Borrower and its Subsidiaries with the right to use the "Hallmark" name and the "Crown" name in their respective television series or on or with respect to any channels owned or operated by the Borrower or any of its Subsidiaries; and

Section 4. Representations and Warranties of the Credit Parties. Each Credit Party represents and warrants that:

(A) before and after giving effect to this Amendment, the representations and warranties contained in Section 3 of the Credit Agreement and in the other Fundamental Documents (including with respect to the accuracy of Schedules 3.6(a) and 3.6(b)) are true and correct in all material respects (except to the extent that any such representations and warranties specifically relate to an earlier date, in which case they shall be true and correct as of such earlier date, or changed circumstances specifically contemplated by, and allowed pursuant to, the Revised Credit Agreement) with the same effect as if made on and as of the date hereof;

(B) before and after giving effect to this Amendment, no Event of Default or Default will have occurred and be continuing on and as of the date hereof; and

(C) the Service Agreement referred to in Section 4.1(h) of the Credit Agreement has heretofore been terminated..

Section 5. Acknowledgment re: Hallmark Cards Facility Guarantee. By its execution of this Amendment, Hallmark Cards, in its capacity as guarantor under the Hallmark Cards Facility Guarantee, hereby acknowledges the extension of the Maturity Date which is being implemented under the Credit Agreement pursuant to this Amendment, and hereby acknowledges and agrees that the provisions of the Hallmark Cards Facility Guarantee shall be in full force and effect both prior and subsequent to the Amendment Effective Date, and regardless of whether any Change in Control (as defined in the Revised Credit Agreement) may occur subsequent to the date hereof.

Section 6. Further Assurances. At any time and from time to time, upon the Agent's request and at the sole expense of the Credit Parties, each Credit Party will promptly and duly

execute and deliver any and all further instruments and documents and take such further action as the Agent shall reasonably request.

Section 7. Fundamental Documents. This Amendment is designated a Fundamental Document by the Agent.

Section 8. Full Force and Effect. Except as expressly amended hereby, the Credit Agreement and the other Fundamental Documents shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Credit Agreement, the terms "Agreement", "this Agreement", "herein", "hereafter", "hereto", "hereof", and words of similar import, shall, unless the context otherwise requires, mean the Credit Agreement as amended by this Amendment.

Section 9. APPLICABLE LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

Section 10. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one instrument.

Section 11. Expenses. The Borrower agrees to pay all out-of-pocket expenses incurred by the Agent in connection with the preparation, execution and delivery of this Amendment, including, but not limited to, the reasonable fees and disbursements of counsel for the Agent.

Section 12. Headings. The headings of this Amendment are for the purposes of reference only and shall not affect the construction of or be taken into consideration in interpreting this Amendment.

IN WITNESS WHEREOF, the parties hereby have caused this Amendment to be duly executed as of the date first written above.

[Signature Pages Follow]

**BORROWER:**

CROWN MEDIA HOLDINGS, INC.

By /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

**GUARANTORS:**

CM INTERMEDIARY, LLC

CROWN MEDIA UNITED STATES, LLC

CITI TEEVEE, LLC

DOONE CITY PICTURES, LLC

By /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

*Signature Page to Amendment No. 17*

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**LENDER:**

JPMORGAN CHASE BANK, N.A., individually and as Agent  
and Issuing Bank

By /s/ Gregory T. Martin

Name: Gregory T. Martin

Title: Vice President

Acknowledged and Agreed, solely with Respect to Section 5  
hereof:

HALLMARK CARDS, INCORPORATED

By /s/ Timothy Griffith

Name: Timothy Griffith

Title: Executive Vice President

*Signature Page to Amendment No. 17*

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**FORM OF REVISED CREDIT AGREEMENT**

[Please see attached]

***HIGHLIGHTING CHANGES TO BE IMPLEMENTED  
TO THE CREDIT AGREEMENT (AS THE SAME HAD  
PREVIOUSLY BEEN AMENDED THROUGH  
AMENDMENT NO. 16 DATED AS OF MARCH 2, 2010) VIA  
AMENDMENT NO. 17 DATED AS OF JUNE 29, 2010***

**CREDIT, SECURITY, GUARANTY AND PLEDGE AGREEMENT**

**Dated as of August 31, 2001  
among**

**CROWN MEDIA HOLDINGS, INC.  
as Borrower**

**and**

**ITS SUBSIDIARIES NAMED HEREIN  
as Guarantors**

**and**

**THE LENDERS NAMED HEREIN**

**and**

**JPMORGAN CHASE**

**BANK, N.A.**

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**(f/k/a THE CHASE MANHATTAN BANK)**

**as Administrative Agent and Issuing Bank**

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-

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CREDIT, SECURITY, GUARANTY AND PLEDGE AGREEMENT, dated as of August 31, 2001 among (i) CROWN MEDIA HOLDINGS, INC., a Delaware corporation (the "Borrower"), (ii) the GUARANTORS which are parties hereto from time to time, (iii) the LENDERS which are parties hereto from time to time and (iv) JPMORGAN CHASE BANK, N.A., a national banking corporation (f/k/a THE CHASE MANHATTAN BANK), as Agent for the Lenders and as Issuing Bank.

#### INTRODUCTORY STATEMENT

All terms not otherwise defined above or in this Introductory Statement are as defined in Article 1 hereof, or as defined elsewhere herein.

The Borrower requested that the Lenders make available a \$320,000,000 five-year secured credit facility consisting of a term loan of \$100,000,000 and a revolving credit facility of up to \$240,000,000 (or such lesser amount as is available based upon amounts actually committed) to be used (i) to pay HEDC for the acquisition of certain rights in the HEDC Library in an amount not to exceed \$120,000,000 (or such lesser amount as represents the cash portion of the purchase price of the HEDC Library), (ii) to repay intercompany loans from Hallmark or HCC (subject to the limitations set forth herein), (iii) to fund the development, distribution, exploitation and acquisition of intellectual properties including feature films, television and video product and/or rights therein or thereto; (iv) for general working capital purposes, including acquisitions and the operation of the Borrower and its Subsidiaries; and (v) to fund the acquisition, distribution, marketing and other exploitation of movies-of-the-week, mini-series, cable, pay cable, first-run syndication, network and video programming.

To provide security for the repayment of the Loans and all other Obligations of the Credit Parties hereunder, the Credit Parties provided the following to the Agent, for the benefit of itself, the Issuing Bank and the Lenders: (i) a security interest from the Credit Parties in the Collateral pursuant to Article 8 hereof which will include (x) the material contracts of the Credit Parties, including but not limited to, Platform Agreements, and (y) all of the Credit Parties' rights in copyrights, trademarks, tradenames and service marks; (ii) a guaranty from the Guarantors pursuant to Article 10 hereof; (iii) a pledge of the capital stock or other ownership interest of the Guarantors, pursuant to Article 11 hereof and (iv) a security interest from the Borrower in the Cash Collateral Account.

For the avoidance of doubt, (a) the term loans described above were repaid in their entirety on or prior to October 28, 2004 and the term loan commitments were permanently reduced to zero in connection with such repayment, (b) in connection with Amendment No. 16 dated as of March 2, 2010 to this Credit Agreement, the Total Commitments were reduced to \$30,000,000 and (c) in connection with Amendment No. 17 (defined below), the Maturity Date has been extended to June 30, 2011.

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The Borrower, Hallmark Cards, HCC and certain other parties have entered into a Master Recapitalization Agreement dated as of February 26, 2010 (the "Recapitalization Agreement") pursuant to which, among other things, (a) all of Borrower's existing Subordinated Debt to HCC and its Affiliates (excluding certain intercompany payables and amounts due under the Tax Sharing Agreement) is being converted into intercompany Indebtedness, common stock and preferred stock in accordance with the following parameters: (i) \$315 million principal amount of Indebtedness of the Credit Parties will remain, with (a) \$200 million of such Indebtedness constituting cash-pay interest-bearing obligations, with an interest rate not to exceed 9.5% per annum through December 31, 2011 and 12% thereafter (the "Term A Loan Recapitalized Debt") and (b) \$115 million of such Indebtedness constituting obligations on which (1) the applicable interest rate shall be a rate per annum equal to 11.5% through December 31, 2011, increasing to 14% thereafter and (2) interest through December 31, 2010 may be payable in kind by adding accrued interest to principal but which shall become cash-pay beginning on January 1, 2011 (the "Term B Loan Recapitalized Debt" and, together with the Term A Loan Recapitalized Debt, the "Recapitalized Debt"); (ii) the Recapitalized Debt will be evidenced by the Credit Agreement dated on or about the Amendment No. 17 Effective Date among Borrower as borrower, HCC as lender and each of the other "Credit Parties" from time to time party thereto (the "Recapitalization Credit Agreement", and, together with any other documentation to be established in connection therewith, the "Recapitalization Credit Documents"); (iii) \$185 million of such existing intercompany Indebtedness will be converted into convertible preferred stock of the Borrower (the "Series A Preferred Stock"); (iv) the remaining intercompany Subordinated Debt of the Credit Parties shall be converted into shares of class A common stock of the Borrower; and (v) two intermediate holding companies above the Borrower will be merged with and into the Borrower (the consummation of the transactions contemplated in the Recapitalization Agreement, as described above, is referred to herein as the "Recapitalization").

Subject to the terms and conditions set forth herein, the Agent is willing to act as agent for the Lenders and each Lender is willing to make Loans to the Borrower and to participate in Letters of Credit in amounts in the aggregate at any one time outstanding not in excess of the Commitment of that Lender hereunder.

Accordingly, the parties hereto hereby agree as follows:

#### 1. DEFINITIONS

For the purposes hereof unless the context otherwise requires, the following terms shall have the meanings indicated, all accounting terms not otherwise defined herein shall have the respective meanings accorded to them under GAAP and all terms defined in the UCC and not otherwise defined herein shall have the respective meanings accorded to them therein. Unless the content otherwise requires, any of the following terms may be used in the singular or the plural, depending on the reference:

"Affiliate" shall mean any Person which directly or indirectly holds a controlling interest in, is controlled by, or is under common control with, another Person. For purposes of this definition, a Person shall be deemed to be "controlled by" another Person if such latter Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such controlled Person whether by contract or otherwise.

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"Agent" and "Administrative Agent" shall mean JPMorgan Chase Bank, N.A. in its capacity as agent for the Lenders hereunder, and any successor agent appointed pursuant to Section 12.11 hereof.

"Agreement" and "Credit Agreement" shall mean this Credit, Security, Guaranty and Pledge Agreement, as it may be amended, supplemented or otherwise modified from time to time.

"Alternate Base Rate" shall mean for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect for such day plus ½ of 1% and (c) the LIBO Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its prime rate in effect at its principal office in New York City. "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the one-month LIBO Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate, the one-month LIBO Rate or the Federal Funds Effective Rate, respectively.

"Alternate Base Rate Loan" shall mean a Loan bearing interest based on the Alternate Base Rate in accordance with the provisions of Article 2 hereof.

"Amendment No. 12 Effective Date" shall mean the Amendment Effective Date, as such term is defined in that certain Amendment No. 12 dated as of March 2, 2007 to this Credit Agreement.

"Amendment No. 13" shall mean that certain Amendment No. 13 dated as of July 27, 2007 to this Credit Agreement.

"Amendment No. 15" shall mean that certain Amendment No. 15 dated as of March 2, 2009 to this Credit Agreement.

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"Amendment No. 17" shall mean that certain Amendment No. 17 dated as of June , 2010 to this Credit Agreement.

"Amendment No. 17 Effective Date" shall mean the Amendment Effective Date (as defined in Amendment No. 17).

"Applicable Law" shall mean all provisions of statutes, rules, regulations and orders of governmental bodies or regulatory agencies applicable to a Person, and all orders and decrees of all courts and arbitrators in proceedings or actions in which the Person in question is a party.

"Applicable Margin" shall mean (i) in the case of Alternative Base Rate Loans, 1.25% per annum and (ii) in the case of Eurodollar Loans 2.25% per annum.

"Assessment Rate" shall mean, for any date, the net annual assessment rate (rounded upwards, if necessary, to the next higher 1/100 of 1%) as most recently estimated by the Agent for determining the then current net annual assessment rate that will be employed in determining amounts payable by The Chase Manhattan Bank to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or such successor) of time deposits made in dollars at The Chase Manhattan Bank's domestic offices.

"Assignment and Acceptance" shall mean an agreement substantially in the form of Exhibit H hereto, executed by the assignor, assignee and other parties as contemplated thereby.

"Authorized Officer" shall mean, with respect to any Person, its chief executive officer, chief operating officer or chief financial officer.

"Bankruptcy Code" shall mean the Bankruptcy Reform Act of 1978, as heretofore and hereafter amended, as codified at 11 U.S.C. 101 et seq.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"Borrowing" shall mean a group of Loans of a single Interest Rate Type and as to which a single Interest Period is in effect on any given day.

"Borrowing Certificate" shall be as defined in Section 4.2(d).

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks in The City of New York or the City of Los Angeles are permitted to close; provided, however, that when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in Dollar deposits on the London interbank market.

"Capital Expenditures" shall mean, with respect to any Person for any period, the sum of (i) the aggregate of all expenditures (whether paid in cash or accrued as a liability) by such Person during that period which, in accordance with GAAP, are or should be included in

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"additions to property, plant or equipment" or similar items included in cash flows (including Capital Leases) and (ii) to the extent not covered by clause (i) hereof, the aggregate of all expenditures properly capitalized in accordance with GAAP by such Person to acquire, by purchase or otherwise, the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any other Person (other than the portion of such expenditures allocable in accordance with GAAP to net current assets or which is allocable to the acquisition of items of Product).

"Capital Lease", as applied to any Person, shall mean any lease of any property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Cash Collateral Account" shall be as defined in Section 9.1 hereof.

"Cash Equivalents" shall mean (i) marketable securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition, (ii) time deposits, demand deposits, certificates of deposit, acceptances or prime commercial paper or repurchase obligations for underlying securities of the types described in clause (i) entered into with any Lender or any commercial bank organized under the laws of the United States or a state thereof having a short-term deposit rating at the time of acquisition of at least A-2 or the equivalent thereof by Standard & Poor's Ratings Services or at least P-2 or the equivalent thereof by Moody's Investors Service, Inc., (iii) commercial paper issued by a Lender or the parent of a Lender with a rating at the time of acquisition of A-1 or A-2 or the equivalent thereof by Standard & Poor's Ratings Services or P-1 or P-2 or the equivalent thereof by Moody's Investors Service, Inc. and in each case maturing within twelve months after the date of acquisition, (iv) repurchase agreements and reverse repurchase agreements with any Lender or any Affiliate of any Lender relating to marketable direct obligations issued or unconditionally backed by the full faith and credit of the United States, in each case maturing within one year from the date thereof and (v) marketable direct obligations issued by any state of the United States or any agency or instrumentality thereof maturing within twelve months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings generally obtainable from either Standard & Poor's Ratings Services or Moody's Investors Service, Inc.

"Change in Control" shall mean (a) Hallmark Cards shall cease to own (directly or indirectly) at least 80% of the Equity Interests of the Borrower, (b) Hallmark Cards shall cease to have (i) sufficient voting power to elect a majority of the Borrower's Board of Directors or (ii) beneficial ownership over a majority of the issued and outstanding Equity Interests of the Borrower having voting power or (c) the

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consummation by the Borrower of any transaction that would constitute a "Rule 13e-3 transaction" as defined in the Exchange Act.

"Charge Over Shares" shall mean a charge over shares to be delivered by the Borrower in favor of the Agent, in form and substance satisfactory to the Agent; it being understood that the Charge Over Shares was terminated and released in connection with the consummation of the Foreign Asset Sale.

"Clearing Account" shall mean the account of the Borrower maintained at the office of the Agent at 270 Park Avenue, New York, New York 10017-2070, designated as the "Crown Media, Inc. - Clearing Account", Account No. 323224679.

"Closing Date" shall mean the date on which the conditions precedent set forth in Section 4.1 have been satisfied or waived, which occurred on or about August 31, 2001.

"CM Intermediary" shall mean CM Intermediary, LLC, a Delaware limited liability company.

"Code" shall mean the Internal Revenue Code of 1986 and the rules and regulations issued thereunder, as heretofore and hereafter amended, as codified at 26 U.S.C. et seq., or any successor provision thereto.

"Collateral" shall mean with respect to each Credit Party, all of such Credit Party's right, title and interest in and to all personal property, tangible and intangible, wherever located or situated and whether now owned, presently existing or hereafter acquired or created, including, but not limited to, all goods, accounts, instruments, intercompany obligations, contract rights, partnership and joint venture interests, documents, chattel paper, general intangibles, goodwill, equipment, machinery, inventory, investment property, copyrights, trademarks (other than any rights which such Credit Party may have in and to the "Hallmark" and "Odyssey" trademarks), trade names, insurance proceeds, cash, deposit accounts and the Pledged Securities, and any proceeds thereof, products thereof or income therefrom, further including, but not limited to, all of such Credit Party's right, title and interest in and to each and every item and type of Product, the scenario, screenplay or script upon which an item of Product is based, all of the properties thereof, tangible and intangible, and all domestic and foreign copyrights and all other rights therein and thereto, of every kind and character, whether now in existence or hereafter to be made or produced, and whether or not in possession of such Credit Party, including with respect to each and every item of Product and without limiting the foregoing language, each and all of the following particular rights and properties (to the extent they are now owned or hereafter owned by such Credit Party):

(i) all scenarios, screenplays and/or scripts at every stage thereof;

(ii) all common law and/or statutory copyright and other rights in all literary and other properties (hereinafter called "said literary properties") which form the basis of such item of Product and/or which are or will be incorporated into such item of Product, all component parts of such item of Product consisting of said literary properties, all motion picture rights in and to the story, all treatments of said story and said literary properties, together with all preliminary and final screenplays used and to be used in connection with such item of Product,

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and all other literary material upon which such item of Product is based or from which it is adapted;

(iii) all motion picture rights in and to all music and musical compositions used and to be used in such item of Product, if any, including, each without limitation, all rights to record, rerecord, produce, reproduce or synchronize all of said music and musical compositions in and in connection with motion pictures;

(iv) all tangible personal property relating to such item of Product, including, without limitation, all exposed film, developed film, positives, negatives, prints, positive prints, answer prints, special effects, preparing materials (including interpositives, duplicate negatives, internegatives, color reversals, intermediates, lavenders, fine grain master prints and matrices, and all other forms of pre-print elements), sound tracks, cutouts, trims and any and all other physical properties of every kind and nature relating to such item of Product whether in completed form or in some state of completion, and all masters, duplicates, drafts, versions, variations and copies of each thereof, in all formats whether on film, videotape, disk or other optical or electronic media or otherwise and all music sheets and promotional materials relating to such item of Product (collectively, the "Physical Materials");

(v) all collateral, allied, subsidiary and merchandising rights appurtenant or related to such item of Product including, without limitation, the following rights: all rights to produce remakes, sequels or prequels to such item of Product, based upon such item of Product, said literary properties or the theme of such item of Product and/or the text or any part of said literary properties; all rights throughout the world to broadcast, transmit and/or reproduce by means of television (including commercially sponsored, sustaining and subscription or "pay" television) or by streaming video or by other means over the internet or any other open or closed physical or wireless network or by any process analogous to any of the foregoing, now known or hereafter devised, such item of Product or any remake, sequel or prequel to the item of Product; all rights to produce primarily for television or similar use, a motion picture or series of motion pictures, by use of film or any other recording device or medium now known or hereafter devised, based upon such item of Product, said literary properties or any part thereof, including, without limitation, based upon any script, scenario or the like used in such item of Product; all merchandising rights including, without limitation, all rights to use, exploit and license others to use and exploit any and all commercial tie-ups of any kind arising out of or connected with said literary properties, such item of Product, the title or titles of such item of Product, the characters of such item of Product and/or said literary properties and/or the names or characteristics of said characters and including further, without limitation, any and all commercial exploitation in connection with or related to such item of Product, any remake, sequel or prequel thereof and/or said literary properties;

(vi) all statutory copyrights, domestic and foreign, obtained or to be obtained on such item of Product, together with any and all copyrights obtained or to be obtained in connection with such item of Product or any underlying or component elements of such item of Product, including, in each case without limitation, all copyrights on the property described in subparagraphs (i) through (v) inclusive, of this definition, together with the right to copyright (and all rights to renew or extend such copyrights) and the right to sue in the name of any of the Credit Parties for past, present and future infringements of copyright;

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(vii) all insurance policies and completion guaranties connected with such item of Product and all proceeds which may be derived therefrom;

(viii) all rights to distribute, sell, rent, license the exhibition of and otherwise exploit and turn to account such item of Product, the Physical Materials, the motion picture rights in and to the story and/or other literary material upon which such item of Product is based or from which it is adapted, and the music and musical compositions used or to be used in such item of Product;

(ix) any and all sums, proceeds, money, products, profits or increases, including money profits or increases (as those terms are used in the UCC or otherwise) or other property obtained or to be obtained from the distribution, exhibition, sale or other uses or dispositions of such item of Product or any part of such item of Product, including, without limitation, all sums, proceeds, profits, products and increases, whether in money or otherwise, from the sale, rental or licensing of such item of Product and/or any of the elements of such item of Product including, without limitation, from collateral, allied, subsidiary and merchandising rights, and further including, without limitation, all monies held in any Collection Account;

(x) the dramatic, nondramatic, stage, television, radio and publishing rights, title and interest in and to such item of Product, and the right to obtain copyrights and renewals of copyrights therein;

(xi) the name or title of such item of Product and all rights of such Credit Party to the use thereof, including, without limitation, rights protected pursuant to trademark, service mark, unfair competition and/or any other applicable statutes, common law, or other rule or principle of law;

(xii) any and all contract rights and/or chattel paper which may arise in connection with such item of Product;

(xiii) all accounts and/or other rights to payment which such Credit Party presently owns or which may arise in favor of such Credit Party in the future, including, without limitation, any refund or rebate in connection with a completion guaranty or otherwise, all accounts and/or rights to payment due from Persons in connection with the distribution of such item of Product, or from the exploitation of any and all of the collateral, allied, subsidiary, merchandising and other rights in connection with such item of Product;

(xiv) any and all "general intangibles" (as that term is defined in the UCC) not elsewhere included in this definition, including, without limitation, any and all general intangibles consisting of any right to payment which may arise in connection with the distribution or exploitation of any of the rights set out herein, and any and all general intangible rights in favor of such Credit Party for services or other performances by any third parties, including actors, writers, directors, individual producers and/or any and all other performing or nonperforming artists in any way connected with such item of Product, any and all general intangible rights in favor of such Credit Party relating to licenses of sound or other equipment, or licenses for any photograph or photographic or other processes, and any and all general intangibles related to the distribution or exploitation of such item of Product including general

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intangibles related to or which grow out of the exhibition of such item of Product and the exploitation of any and all other rights in such item of Product set out in this definition;

(xv) any and all goods including, without limitation, inventory (as that term is defined in the UCC) which may arise in connection with the creation, production or delivery of such item of Product and which goods pursuant to any production or distribution agreement or otherwise are owned by such Credit Party;

(xvi) all and each of the rights, regardless of denomination, which arise in connection with the acquisition, creation, production, completion of production, delivery, distribution, or other exploitation of such item of Product, including, without limitation, any and all rights in favor of such Credit Party, the ownership or control of which are or may become necessary or desirable, in the opinion of the Administrative Agent, in order to complete production of such item of Product in the event that the Administrative Agent exercises any rights it may have to take over and complete production of such item of Product;

(xvii) any and all documents issued by any pledgeholder or bailee with respect to such item of Product or any Physical Materials (whether or not in completed form) with respect thereto;

(xviii) any and all Collection Accounts or other bank accounts established by such Credit Party with respect to such item of Product;

(xix) any and all rights of such Credit Party under any License Agreements or Platform Agreements relating to such item of Product; and

(xx) any and all rights of such Credit Party under contracts relating to the production or acquisition of such item of Product, including, but not limited to, all contracts which have been delivered to the Agent pursuant to this Credit Agreement.

"Collection Account" shall have the meaning given such term in Section 8.3 hereof.

"Commitment" shall mean, collectively, the Term Loan Commitment and the Revolving Loan Commitment of each Lender.

"Commitment Fees" shall have the meaning given such term in Section 2.7 hereof.

"Commitment Termination Date" shall mean the earlier to occur of (i) June 30, 2011 and (ii) such earlier date on which the Total Commitment shall terminate in accordance with Section 2.8(a) or Article 7 hereof.

"Consolidated Net Income" shall mean, for any period for which such amount is being determined, the consolidated net income of such Person for such period in accordance with GAAP.

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"Consolidated Subsidiaries" shall mean, for any Person, all subsidiaries of such Person which are required or permitted to be consolidated with such Person for financial reporting purposes in accordance with GAAP.

"Contribution Agreement" shall mean the Contribution Agreement substantially in the form of Exhibit I hereto to be entered into by the Guarantors, as such Contribution Agreement may be amended, supplemented or otherwise modified from time to time.

"Controlled Foreign Corporation" shall mean a Subsidiary of the Borrower which is a "controlled foreign corporation" as defined in Section 957(a) of the Code or any successor provision thereto.

"Copyright Security Agreement" shall mean the Copyright Security Agreement, substantially in the form of Exhibit B-1 hereto, as the same may be amended or supplemented from time to time by delivery of a Copyright Security Agreement Supplement or otherwise.

"Copyright Security Agreement Supplement" shall mean a Supplement to the Copyright Security Agreement substantially in the form of Exhibit B-2 hereto.

"Credit Exposure" shall mean, without duplication, with respect to any Lender, the sum of such Lender's (i) aggregate outstanding Loans hereunder and (ii) Pro Rata Share of the then current L/C Exposure.

"Credit Parties" shall mean the Borrower and the Guarantors.

"Crown Media US" shall mean Crown Media United States, LLC, a Delaware limited liability company.

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"Currency Agreement" shall mean any foreign exchange contract, currency swap agreement, futures contract, option contract, synthetic cap or other similar agreement designed to protect the Borrower against fluctuations in currency values.

"Debenture" shall mean a debenture to be delivered by any U.K. Credit Party in favor of the Agent, in form and substance satisfactory to the Agent; it being understood that the Debenture(s) was terminated and released in connection with the consummation of the Foreign Asset Sale.

"Default" shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Dollars" and "\$" shall mean lawful money of the United States of America.

"Environmental Laws" shall mean any and all federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or requirements of any Governmental Authority regulating, relating to, or imposing liability or standards of conduct concerning, any Hazardous Material or environmental protection or health and safety, as now or at any time hereafter in effect, including without limitation, the Clean Water Act also known as the Federal Water Pollution Control Act ("FWPCA"), 33 U.S.C. § 1251 et seq., the Clean Air Act ("CAA"), 42 U.S.C. §§ 7401 et seq., the Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA"), 7 U.S.C. §§ 136 et seq., the Surface Mining Control and Reclamation Act ("SMCRA"), 30 U.S.C. §§ 1201 et seq., the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 et seq., the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), Public Law 99-499, 100 Stat. 1613, the Emergency Planning and Community Right to Know Act ("EPCRA"), 42 U.S.C. § 11001 et seq., the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. § 6901 et seq., the Occupational Safety and Health Act as amended ("OSHA"), 29 U.S.C. § 655 and § 657, and other such laws relating to the storage, transportation, treatment and disposal of Hazardous Materials into the air, surface water, ground water, land surface, subsurface strata or any building or structure and, together, in each case, with any amendment thereto, and the regulations adopted pursuant thereto.

"Equity Interest" shall mean shares of the capital stock, partnership interests, membership interest in a limited liability company, beneficial interests in a trust or other equity interests in any Person or any warrants, options or other rights to acquire such interests.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as heretofore and hereafter amended, as codified at 29 U.S.C. § 1001 et seq., and the regulations promulgated thereunder.

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"ERISA Affiliate" shall mean each Person (as defined in Section 3(9) of ERISA) which is treated as a single employer with any Credit Party under Section 414(b), (c), (m) or (o) of the Code.

"Eurodollar Loan" shall mean a Loan bearing interest based on the LIBO Rate in accordance with the provisions of Article 2 hereof.

"Events of Default" shall have the meaning given such term in Article 7 hereof.

"Executive Officer" shall mean, with respect to any Person, its chief executive officer, chief operating officer, chief financial officer or executive or senior vice president.

"Existing Agreement" shall mean the Amended and Restated Credit and Security Agreement dated as of August 31, 1995 as amended and restated as of October 16, 1998 among Hallmark, certain of its Subsidiaries, the lenders party thereto and the Agent.

"Fee Letter" shall mean the letter agreement dated June 27, 2001, between the Borrower and the Agent.

"Foreign Asset Sale" shall mean the sale by the Borrower of its foreign assets, including its foreign Platform Agreements, foreign subsidiaries and foreign distribution rights in its film library, as contemplated in Exhibit Q hereto, as approved by the Agent.

"Fundamental Documents" shall mean this Credit Agreement, the Notes, the Contribution Agreement, the Pledgeholder Agreements, the Laboratory Access Letters, the Copyright Security Agreement, the Copyright Security Agreement Supplements, the Trademark Security Agreement, UCC Financing Statements, the Recapitalized Debt Intercreditor Agreement, and any other ancillary agreement which is required to be or otherwise executed by such Credit Party and delivered to the Agent in connection with this Agreement and, in addition, with respect to the Borrower, the Notes.

"GAAP" shall mean generally accepted accounting principles in the United States of America consistently applied as in effect on the date hereof; provided, however, that if either the Required Lenders or the Borrower proposes that GAAP be modified as a result of any changes allowed by or in response to FASB releases or other authoritative pronouncements issued after the date hereof, the Required Lenders or the Borrower (as applicable) agree not to unreasonably withhold or delay their consent to any such proposal so long as such proposed modification would not affect the calculation of any of the financial covenants contained herein.

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"Governmental Authority" shall mean any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, or any court, in each case whether of the United States or foreign.

"Granting Lender" has the meaning specified in Section 13.3.

"Guarantors" shall mean CM Intermediary, LLC, Crown Media United States, LLC, Citi Teevee, LLC, Doone City Pictures, LLC and any other Subsidiaries which hereafter are required to become signatories to this Agreement pursuant to Section 6.19 hereof.

"Guaranty" shall mean, as to any Person, any direct or indirect obligation of such Person guaranteeing or intended to guarantee any Indebtedness, Capital Lease, dividend or other monetary obligation ("primary obligation") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, or (c) to purchase property, securities or services, in each case, primarily for the purpose of assuring the owner of any such primary obligation. The amount of any Guaranty shall be deemed to be an amount equal to (x) the stated or determinable amount of the primary obligation in respect of which such Guaranty is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) or (y) the stated maximum liability under such Guaranty, whichever is less.

"Hallmark Cards" shall mean Hallmark Cards, Incorporated, a Missouri corporation.

"Hallmark Cards Facility Guarantee" shall mean a guarantee agreement substantially in the form of Exhibit S hereto, as the same may be amended, supplemented, extended or replaced from time to time, which shall provide for a guarantee by Hallmark Cards in favor of the Agent (on behalf of itself, the Issuing Bank and the Lenders) of any and all Obligations from time to time outstanding hereunder.

"Hallmark Cards Letter of Credit" shall mean the Letter of Credit issued by Credit Suisse First Boston or an Affiliate on behalf of HCC for the benefit of the Borrower, and substantially in the form of Exhibit L-1 hereto; it being understood that the Hallmark Cards Letter of Credit was terminated prior to the Amendment No. 17 Effective Date.

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"Hallmark Cards Subordination and Support Agreement" shall mean the subordination and support agreement from Hallmark Cards substantially in the form of Exhibit K hereto, as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof; it being understood that the Hallmark Cards Subordination and Support Agreement was terminated on the Amendment No. 17 Effective Date in connection with the consummation of the Recapitalization.

"Hallmark Holdings" shall mean Hallmark Entertainment Holdings, Inc., a Delaware corporation which is an indirect wholly-owned subsidiary of Hallmark Cards that was merged with and into the Borrower in connection with the Recapitalization.

"Hallmark Inducement Agreement" shall mean the Hallmark Inducement Agreement substantially in the form of Exhibit O hereto, as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof; it being understood that the Hallmark Inducement Agreement was terminated prior to the Amendment No. 17 Effective Date.

"Hallmark L/C" shall mean an irrevocable letter of credit issued to the Agent by Citibank, N.A. in the amount of the Total Commitment as credit support for the Obligations of the Borrower, substantially in the form of Exhibit R hereto or a replacement irrevocable letter of credit issued to the Agent by JPMorgan Chase Bank, N.A. in substantially the form of Exhibit R-1 hereto; it being understood that the Hallmark L/C was cancelled in connection with the effectiveness of Amendment No. 15.

"Hallmark Purchase" shall have the meaning given such term in Section 13.3(l) hereof.

"Hallmark Subordinated Participation" shall have the meaning set forth in Section 14.1 hereof.

"Hazardous Materials" shall mean any flammable materials, explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or similar materials defined as such in any Environmental Law.

"Hallmark Tax Note" shall mean that certain promissory note in favor of Hallmark Cards in the original principal amount of \$33,082.019 in consideration for its obligations of repayments to Hallmark Cards arising under that certain Tax Sharing Agreement dated March 11, 2003 as a result of the disallowance by the Internal Revenue Service of the use of certain of Borrower's losses for the calendar years 2003 and 2004; it being understood that the obligations under the Hallmark Tax Note were fully paid in December 2009.

"HCC" shall mean HC Crown Corp., a Delaware corporation.

"HCC Promissory Note" shall mean the promissory note dated as of August 31, 2001 among the Borrower, as borrower, Crown Media International, Inc. and Crown Media United States, LLC, as guarantors, and HCC, as lender; it being understood that the obligations under the HCC Promissory Note were converted into Recapitalized Debt and/or Equity Interests in connection with the consummation of the Recapitalization.

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"HEDC" shall mean Hallmark Entertainment Distribution, LLC, a Delaware limited liability company, now known as RHI Entertainment Distribution, LLC, which ceased to be an Affiliate of the Borrower in January 2008.

"HEDC Library" shall mean the seven hundred two titles in which the Borrower is to obtain certain rights pursuant to the HEDC Purchase Agreement.

"HEDC License Agreements" shall mean (i) prior to the Closing Date, the Program License Agreement dated as of July 1, 1999 between HEDC and Crown Media and, subsequent to the Closing Date, the amended and restated version thereof substantially in the form of Exhibit M-1 hereto and (ii) prior to the Closing Date, the Program License Agreement dated as of November 13, 1998 between HEDC and Crown Media US and, subsequent to the Closing Date, the amended and restated version thereof substantially in the form of Exhibit M-2 hereto.

"HEDC Purchase Agreement" shall mean the Purchase and Sale Agreement dated as of April 10, 2001 between HEDC and the Borrower pursuant to which the Borrower is acquiring rights in the HEDC Library, a copy of which is attached hereto as Exhibit N.

"Indebtedness" shall mean (without double counting), at any time and with respect to any Person, (i) indebtedness of such Person for borrowed money (whether by loan or the issuance and sale of debt securities) or for the deferred purchase price of property or services purchased (other than amounts constituting trade payables (payable within 90 days) arising in the ordinary course of business); (ii) obligations of such Person in respect of letters of credit, acceptance facilities, or drafts or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; (iii) obligations of such Person under Capital Leases; (iv) deferred payment obligations of such Person resulting from the adjudication or settlement of any litigation; (v) obligations of such Person under synthetic leases or financing leases (but not operating leases); and (vi) indebtedness of others of the type described in clauses (i), (ii), (iii), (iv) and (v) hereof which such Person has (a) directly or indirectly assumed or guaranteed in connection with a Guaranty or (b) secured by a Lien on the assets of such Person, whether or not such Person has assumed such indebtedness (provided, that if such Person has not assumed such indebtedness of another Person then the amount of indebtedness of such Person pursuant to this clause (vi) for purposes of this Credit Agreement shall be equal to the lesser of the amount of the indebtedness of the other Person and the fair market value of the assets of such Person which secure such other indebtedness).

"Initial Date" shall mean (i) in the case of the Agent and the Issuing Bank, the date hereof, (ii) in the case of each Lender which is an original party to this Credit Agreement, the date hereof and (iii) in the case of any other Lender, the effective date of the Assignment and Acceptance pursuant to which it became a Lender.

"Instrument of Assumption and Joinder" shall mean an Instrument of Assumption and Joinder substantially in the form of Exhibit J hereto.

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"Interest Deficit" shall have the meaning given such term in Section 2.16 hereof.

"Interest Expense" shall mean, for any period in respect of the Borrower and its Subsidiaries, the sum of (a) the interest expense (including the interest component in respect of Capital Lease obligations), plus (b) all commitment fees, letter of credit fees, issuing bank fees, or similar fees paid by such Persons during such period in respect of any Indebtedness, plus (c) the net amounts paid by such Persons during such period in connection with any Interest Rate Protection Agreement, Currency Agreement or other hedging arrangement, plus (d) any dividends or similar amounts paid by such Persons during such period in respect of any preferred stock.

"Interest Payment Date" shall mean (i) as to any Eurodollar Loan having an Interest Period of one, two or three months, the last day of such Interest Period, (ii) as to any Eurodollar Loan having an Interest Period of at least six months, the last day of such Interest Period and, in addition, each date during such Interest Period that is an integral multiple of three months from the commencement of such Interest Period and (iii) with respect to Alternate Base Rate Loans, the last Business Day of each March, June, September and December (commencing the last Business Day of September 2001).

"Interest Period" shall mean as to any Eurodollar Loan, the period commencing on the date of such Loan or the last day of the preceding Interest Period and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is one, two, three, six or twelve months thereafter as the Borrower may elect; provided, however, that (i) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall be extended to the next succeeding Business Day, unless such next succeeding Business Day would fall in the next calendar month, in which case, such Interest Period shall end on the next preceding Business Day, (ii) no Interest Period may be selected which would end later than the Maturity Date, (iii) interest shall accrue from and including the first day of such Interest Period to but excluding the last date of such Interest Period and (iv) no Interest Period of six or twelve months may be selected unless such Interest Period is available from all of the Lenders.

"Interest Rate Protection Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, synthetic cap, collar or floor or other financial agreement or arrangement designed to protect a Credit Party against fluctuations in interest rates.

"Interest Rate Type" shall have the meaning given such term in Section 2.3 hereof.

"Investment" shall mean any stock, evidence of indebtedness or other security of any Person, any loan, advance, contribution of capital, extension of credit or commitment therefor (including, without limitation, the Guaranty of loans made to others, but excluding current trade and customer accounts receivable arising in the ordinary course of business and

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payable in accordance with customary trading terms in the ordinary course of business), any purchase of (i) any security of another Person or (ii) any business or undertaking of any Person or any commitment to make any such purchase, or any other investment.

"Issuing Bank" shall mean (i) JPMorgan Chase Bank, N.A., a national banking association, in its capacity as such or (ii) such successor as may be appointed pursuant to Section 12.12 hereof.

"Junior Creditor" shall mean the holder of the Hallmark Subordinated Participation.

"Junior Obligations" shall mean the obligation of the Borrower to repay the principal of, and accrued interest on, the Hallmark Subordinated Participation.

"Laboratory" shall mean any laboratory acceptable to the Agent which is located in the United States and is a party to a Pledgeholder Agreement or a Laboratory Access Letter.

"Laboratory Access Letter" shall mean a letter agreement among (i) a Laboratory holding any elements of any Product to which any Credit Party has the right of access, (ii) such Credit Party and (iii) the Agent, substantially in the form of Exhibit F hereto or a form otherwise acceptable to the Agent.

"L/C Exposure" shall mean, at any time, the amount expressed in Dollars of the aggregate face amount of all drafts which may then or thereafter be presented by beneficiaries under all Letters of Credit then outstanding, plus (without duplication) the face amount of all drafts which have been presented or accepted under Letters of Credit but have not yet been paid or have been paid but not reimbursed, whether directly or from the proceeds of a Loan hereunder.

"Lender" and "Lenders" shall mean the financial institutions whose names appear at the foot hereof and any assignee of a Lender pursuant to Section 13.3(b).

"Lending Office" shall mean, with respect to any of the Lenders, the branch or branches (or affiliate or affiliates) from which any such Lender's Eurodollar Loans or Alternate Base Rate Loans, as the case may be, are made or maintained and for the account of which all payments of principal of, and interest on, such Lender's Eurodollar Loans or Alternate Base Rate Loans are made, as notified to the Agent from time to time.

"Letter of Credit" shall mean a letter of credit issued pursuant to Section 2.4.

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"LIBO Rate" shall mean, with respect to the Interest Period for a Eurodollar Loan (or, as applicable, for purposes of determining the Alternate Base Rate with respect to any Alternate Base Rate Loan), an interest rate per annum equal to the quotient (rounded upwards, if necessary to the next 1/100 of 1%) of (A) (i) the rate appearing on the Reuters BBA LIBOR Rates Page 3750 (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period or (ii) if the rate described in clause (A)(i) is not available on any relevant date of determination, the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, divided by (B) one minus the applicable statutory reserve requirements of the Agent, expressed as a decimal (including without duplication or limitation, basic, supplemental, marginal and emergency reserves), from time to time in effect under Regulation D or similar regulations of the Board of Governors of the Federal Reserve System. It is agreed that for purposes of this definition, Eurodollar Loans made hereunder shall be deemed to constitute Eurocurrency Liabilities as defined in Regulation D and to be subject to the reserve requirements of Regulation D.

"License Agreements" shall mean any and all agreements entered into by any Credit Party pursuant to which such Credit Party acquires license rights in any item of Product (including the HEDC License Agreements).

"Lien" shall mean any mortgage, pledge, security interest, copyright mortgage, encumbrance, lien or charge of any kind whatsoever (including any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction).

"Limited Guarantee" shall mean a Limited Guarantee Agreement and Acknowledgment by Hallmark Cards in favor of the Agent substantially in the form attached hereto as Exhibit L, as it may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof it being understood that the Limited Guarantee was terminated prior to the Amendment No. 17 Effective Date.

"Loans" shall mean the Revolving Credit Loans and/or the Term Loans.

"Margin Stock" shall be as defined in Regulation U of the Board.

"Material Adverse Effect" shall mean any change or effect that (a) has a materially adverse effect on the business, assets, properties, operations, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries, taken as a whole, (b) materially impairs the ability of any Credit Party to perform its respective obligations under the Fundamental Documents to which it is a party, (c) materially impairs the validity or enforceability of, or materially impairs the security interests, rights, remedies or benefits

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available to the Agent or the Lenders under any of the Fundamental Documents; or (d) has a material adverse effect on the Collateral or the Pledged Securities taken as a whole.

"Maturity Date" shall mean June 30, 2011.

"Multiemployer Plan" shall mean a plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which any Credit Party or ERISA Affiliate is making or accruing an obligation to make contributions or has within any of the five preceding plan years made or accrued an obligation to make contributions.

"Net Cash Proceeds" shall mean cash payments received in exchange for the issuance of any debt or equity security by any Credit Party net of commissions and other reasonable fees and expenses incurred, any taxes payable and reasonably estimated income taxes payable with respect to the fiscal year during which such issuance occurs, as a consequence of any repatriation of such cash payments.

"Note" or "Notes" shall mean the Term Note(s) and/or the Revolving Credit Note(s).

"Obligations" shall mean the obligation of the Borrower to make due and punctual payment of (i) principal of and interest on the Loans, the Commitment Fees, any reimbursement obligations (current or contingent) in respect of Letters of Credit, costs and attorneys' fees and all other monetary obligations of the Borrower to the Agent, the Issuing Bank or any Lender under this Agreement, the Notes, any other Fundamental Document or the Fee Letter, (ii) all amounts payable by the Borrower to any Lender under any Currency Agreement or Interest Rate Protection Agreement, provided that the Administrative Agent shall have received written notice thereof within ten (10) Business Days after execution of such Currency Agreement or Interest Rate Protection Agreement and (iii) amounts payable to any Lender or any of its Affiliates in connection with any bank account maintained by the Borrower or any other Credit Party at any Lender or any such Affiliate or any other banking services provided to the Borrower or any other Credit Party by any Lender or any such Affiliate.

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"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

"Percentage" shall mean each Lender's percentage share of the Total Commitment as set forth in the Schedule of Commitments opposite the name of such Lender in the column captioned "Percentage" (as the same may be modified pursuant to any Assignment and Acceptance to which such Lender is a party).

"Permitted Encumbrances" shall mean Liens permitted under Section 6.2 hereof.

"Person" shall mean any natural person, corporation, division of a corporation, partnership, trust, joint venture, association, company, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Physical Materials" shall have the meaning given to such term in paragraph (iv) of the definition of "Collateral" herein.

"Plan" shall mean an employee benefit plan within the meaning of Section 3(3) of ERISA (other than a Multiemployer Plan) which is maintained or contributed to by any Credit Party or any ERISA Affiliates, or with respect to which any Credit Party could otherwise have any liability.

"Platform Agreements" shall mean any and all agreements entered into by a Credit Party with a television distributor pursuant to which the television distributor agrees to deliver channels owned by a Credit Party to subscribers in exchange for a fee.

"Pledged Collateral" shall mean the Pledged Securities and any proceeds (as defined in Section 9-102(a)(64) of the UCC) of the Pledged Securities.

"Pledged Securities" shall mean all of the issued and outstanding capital stock or other equity interests of each of the Guarantors directly or indirectly owned by the Borrower (other than any Controlled Foreign Corporation which the Borrower has elected to pledge only 65% of the stock of such Controlled Foreign Corporation) and all other equity securities or interests now owned or hereafter acquired by any of the Credit Parties, including without limitation the securities listed in Schedule 3.6(a) hereto.

"Pledgeholder Agreement" shall mean a Laboratory Pledgeholder Agreement among a Credit Party, the Agent, and one or more Laboratories located within the continental United States, substantially in the form of Exhibit C hereto, or in such other form as shall be acceptable to the Agent.

"Pledgor" shall mean those Credit Parties that own any Pledged Securities.

"Prepayment Date" shall have the meaning given to such term in Section 2.11(h) hereof.

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"Product" shall mean any movie-of-the-week, episode of a television series, mini-series, motion picture, film, videotape or other program produced for television release or for release in any other medium, shown on network, free, cable, pay and/or other television medium (including without limitation first run syndication) in each case whether recorded on film, videotape, cassette, cartridge, disc or on or by any other means, method, process or device whether now known or hereafter developed. The term "Product" shall include, without limitation, the scenario, screenplay or script upon which such item of Product is based, all of the properties thereof, tangible and intangible, and whether now in existence or hereafter to be made or produced, whether or not in possession of any of the Credit Parties, and all rights therein and thereto, of every kind and character.

"Pro Rata Share" shall mean with respect to any Obligation or other amount, each Lender's pro rata share of such Obligation or other amount determined in accordance with each Lender's Percentage.

"Purchase Price" shall have the meaning given such term in Section 13.3(l) hereof.

"Recapitalization" shall have the meaning set forth in the Introductory Statement.

"Recapitalization Agreement" shall have the meaning set forth in the Introductory Statement.

"Recapitalization Credit Agreement" shall have the meaning set forth in the Introductory Statement.

"Recapitalization Credit Documents" shall have the meaning set forth in the Introductory Statement, and shall include, without limitation, the Recapitalization Credit Agreement and any other Fundamental Document referred to therein.

"Recapitalized Debt Intercreditor Agreement" shall mean the intercreditor agreement between [HCC] and the Agent in the form of Exhibit T hereto, as amended, supplemented or otherwise modified in accordance with the terms hereof.

"Recapitalized Debt" shall have the meaning set forth in the Introductory Statement.

"Redeemable Stock" shall mean any equity interest of the Borrower or any of its Consolidated Subsidiaries that by its terms or otherwise is required to be redeemed or is redeemable at the option of the holder thereof or of any third party other than the Borrower or one of its Consolidated Subsidiaries.

"Regulation D", "Regulation T", "Regulation U" and "Regulation X" shall mean such regulation of the Board.

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"Reportable Event" shall mean any reportable event as described in Section 4043(c) of ERISA, other than a reportable event as to which provision for 30-day notice to the PBGC would be waived under applicable regulations had the regulations in effect on the Closing Date been in effect on the date of occurrence of such reportable event.

"Required Lenders" shall mean (i) the Lenders holding at least 51% of the outstanding Credit Exposure or (ii) if at the time there is zero Credit Exposure, the Lenders holding at least 51% of the Total Commitment.

"Restricted Payment" shall mean (i) any distribution, dividend or other direct or indirect payment on account of any Equity Interest in a Credit Party or an Affiliate (including without limitation any Equity Interest issued in connection with the Recapitalization), in each case whether now or hereafter outstanding; (ii) any redemption or other acquisition or re-acquisition by a Credit Party of any Equity Interest in a Credit Party or an Affiliate (including without limitation any Equity Interest issued in connection with the Recapitalization), in each case whether now or hereafter outstanding; (iii) any payment by a Credit Party of principal of, premium or liquidated damages, if any, interest on, fees in relation to, or any redemption, purchase, retirement, defeasance, sinking fund, or any other payment with respect to, any Subordinated Debt or any Recapitalized Debt; and (v) any other payment (whether in cash or in kind) to Hallmark Cards, HCC or any Affiliate thereof

"Revolving Credit Commitment" shall mean the commitment of each Lender to make Revolving Credit Loans to the Borrower and to participate in Letters of Credit from the Initial Date applicable to such Lender through the Commitment Termination Date up to an aggregate amount, at any one time, not in excess of the amount set forth (i) opposite its name under the column entitled "Revolving Credit Commitment" in the Schedule of Commitments appearing in Schedule 1, or (ii) in any applicable Assignment and Acceptance(s) to which it may be a party, as the case may be, as such amount may be reduced from time to time in accordance with the terms of this Credit Agreement.

"Revolving Credit Loans" shall mean the loans made hereunder in accordance with the provisions of Section 2.1(a) or 2.1(b), whether made as a Eurodollar Loan or an Alternate Base Rate Loan, as permitted hereby.

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"Revolving Credit Notes" shall have the meaning given such term in Section 2.5(a) hereof.

"S.E.C." shall mean the Securities and Exchange Commission or any successor thereto.

"Sale/Leaseback Powers of Attorney" shall mean powers of attorney executed by HEDC appointing the Borrower as its attorney-in-fact in connection with each sale/leaseback transaction to which HEDC or any of its predecessors in interest is a party, each substantially in the form of Exhibit P hereto.

"SPC" has the meaning specified in Section 13.3.

"Senior Obligations" shall mean all Obligations other than the Junior Obligations.

"Series A Preferred Stock" shall have the meaning set forth in the Introductory Statement.

"Subordinated Debt" or "Subordinated Indebtedness" shall mean all Indebtedness or other obligations of the Borrower subordinated to the Obligations pursuant to written agreements, containing interest rates, payment terms, maturities, amortization schedules, covenants, defaults, remedies, subordination provisions and other material terms in form and substance satisfactory to the Agent and the Required Lenders in their sole discretion.

"Subscriber" shall mean any Person or location that receives a channel owned or operated by a Credit Party either directly from a pay television distributor party to a Platform Agreement or from cable operators to whom such pay television distributors sublicense the right to distribute such channel.

"Subsidiary" shall mean with respect to any Person, any corporation, association, joint venture, partnership, limited liability company or other business entity (whether now existing or hereafter organized) of which at least a majority of the voting stock or other ownership interests having ordinary voting power for the election of directors (or the equivalent) is, at the time as of which any determination is being made, owned or controlled by such Person or one or more subsidiaries of such Person or by such Person and one or more subsidiaries of such Person.

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"Tax Sharing Agreement" shall mean the Federal Income Tax Sharing Agreement dated as of March 11, 2003 between the Borrower and Hallmark Cards, as amended.

"Term A Loan Recapitalized Debt" shall have the meaning set forth in the Introductory Statement.

"Term B Loan Recapitalized Debt" shall have the meaning set forth in the Introductory Statement.

"Term Loan Commitment" shall mean the commitment of each Lender to make a Term Loan to the Borrower up to an aggregate amount not in excess of the amount set forth (i) opposite its name under the column entitled "Term Loan Commitment" in the Schedule of Commitments appearing in Schedule 1, or (ii) in any applicable Assignment and Acceptance(s) to which it may be a party, as the case may be, as such amount may be reduced from time to time in accordance with the terms of this Credit Agreement. For the avoidance of doubt, the Term Loans were repaid in their entirety on or prior to October 28, 2004 and the Term Loan Commitments were permanently reduced to zero in connection with such repayment.

"Term Loans" shall mean the loans made hereunder in accordance with the provisions of Section 2.2(a). For the avoidance of doubt, the Term Loans were repaid in their entirety on or prior to October 28, 2004.

"Term Notes" shall mean the promissory notes substantially in the form of Exhibit A-2 hereto which had been used to evidence the Term Loans. For the avoidance of doubt, the Term Loans were repaid in their entirety on or prior to October 28, 2004.

"Total Commitment" shall mean the aggregate amount of the Commitments.

"Trademark Security Agreement" shall mean the Trademark Security Agreement substantially in the form of Exhibit E hereto, as the same may be amended or supplemented from time to time in accordance with the terms hereof.

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"UCC" shall mean the Uniform Commercial Code as in effect in the State of New York on the date of execution of this Agreement.

## 2. THE LOANS

SECTION 2.1. Revolving Credit Loans. (a) Each Lender, severally and not jointly, agrees, upon the terms and subject to the conditions hereof, to make its Pro Rata Share of Revolving Credit Loans to the Borrower on any Business Day and from time to time from the Closing Date and prior to the Commitment Termination Date, each in an amount which when added to the aggregate principal amount of all Revolving Credit Loans then outstanding to the Borrower from such Lender and such Lender's Pro Rata Share of the then-current L/C Exposure does not exceed such Lender's Revolving Credit Commitment.

(b) Subject to the terms hereof, the Borrower may borrow, repay and reborrow amounts constituting the Revolving Credit Commitments.

(c) Subject to Section 2.2 hereof, the Loans shall be made at such times as the Borrower shall request, but the Lenders shall not be required to make Loans hereunder more often than once each calendar week.

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(d) Payments of the Revolving Credit Loans which are not made as a result of an optional or mandatory termination or reduction of the Revolving Credit Commitments shall not reduce the Revolving Credit Commitments.

SECTION 2.2. Term Loans. (a) Each Lender, severally and not jointly, agrees, upon the terms and subject to the conditions hereof, to make its Pro Rata Share of the Term Loans to the Borrower on the Closing Date in a principal amount not exceeding the amount of such Lender's Term Loan Commitment.

(b) Once repaid, amounts constituting the Term Loan Commitments may not be reborrowed. For the avoidance of doubt, the Term Loans were repaid in their entirety on or prior to October 28, 2004 and the Term Loan Commitments were permanently reduced to zero in connection with such repayment.

SECTION 2.3. Making of Loans. (a) Each Loan shall be an Alternate Base Rate Loan or a Eurodollar Loan (each such type of Loan, an "Interest Rate Type") as the Borrower may request subject to and in accordance with this Section. The Borrower shall give the Agent prior written, facsimile or telephonic (promptly confirmed in writing) notice of (i) at least three Business Days for a Borrowing which is to consist of Eurodollar Loans and (ii) at least one Business Day for a Borrowing which is to consist of Alternate Base Rate Loans. Each such notice in order to be effective must be received by the Agent not later than 1:00 p.m., New York City time, on the day required and shall specify the date (which shall be a Business Day) on which such Borrowing is to be made and the aggregate principal amount of the requested Borrowing. Each such notice shall be irrevocable and shall specify whether the Borrowing then being requested is to consist of Alternate Base Rate Loans or Eurodollar Loans, and in the case of Eurodollar Loans, the Interest Period or Interest Periods with respect thereto. If no election of an Interest Period is specified in such notice in the case of a Borrowing consisting of Eurodollar Loans, such notice shall be deemed to be a request for an Interest Period of one month. If no election is made as to the Interest Rate Type of any Borrowing, such notice shall be deemed a request for a Borrowing consisting of Alternate Base Rate Loans. No Borrowing shall consist of Eurodollar Loans if after giving effect thereto an aggregate of more than ten (10) separate Eurodollar Loans would be outstanding hereunder with respect to each Lender (determined in accordance with Section 2.10(c) hereof).

(b) The Agent shall promptly notify each Lender of its proportionate share of each Borrowing under this Section, the date of such Borrowing, the Interest Rate Type of each Loan being requested and the Interest Period or Interest Periods applicable thereto. On the borrowing date specified in such notice, each Lender shall make its share of the Borrowing available at the offices of The Chase Manhattan Bank, Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention: Donna Montgomery, for credit to the Clearing Account no later than 1:00 p.m., New York City time, in Federal or other immediately available funds. Upon receipt of any funds to be made available by the Lenders to fund any Borrowing hereunder, the Agent shall disburse such funds by depositing them into an account specified by the Borrower.

(c) Each Lender may at its option fulfill its obligation to make Eurodollar Loans by causing a foreign branch or affiliate to fund such Eurodollar Loans, provided that any

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exercise of such option shall not affect the obligation of the Borrower to repay the Loans in accordance with the terms hereof and of the Notes. Subject to the other provisions of this Section, Loans of more than one type may be outstanding at the same time.

(d) The amount of any Borrowing of new funds hereunder shall be in an aggregate principal amount of \$500,000 for Alternate Base Rate Loans and \$1,000,000 for Eurodollar Loans (or such lesser amount as shall equal the available but unused portion of the Revolving Credit Commitments) or such greater amount which is an integral multiple of \$500,000.

SECTION 2.4. Letters of Credit. (a) Upon the terms and subject to the conditions hereof, the Issuing Bank agrees, upon the request of the Borrower, to issue Letters of Credit, payable in Dollars from time to time after the Closing Date and prior to the 30th day prior to the Commitment Termination Date, provided that (i) the Borrower shall not request, and the Issuing Bank shall not issue, any Letter of Credit, if after giving effect thereto, (A) [intentionally omitted], (B) the sum of the then-current L/C Exposure plus the aggregate amount of all outstanding Revolving Credit Loans would exceed the Revolving Credit Commitment then in effect, or (C) the sum of the then-current L/C Exposure would exceed \$20,000,000 and (ii) in no event shall the Issuing Bank be required to issue any Letter of Credit having an expiration date (x) later than the tenth Business Day prior to the Commitment Termination Date or (y) more than one year after its date of issuance.

(i) Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby agrees to, have irrevocably purchased from the Issuing Bank a participation in such Letter of Credit in accordance with such Lender's Percentage.

(ii) Each Letter of Credit may, at the option of the Issuing Bank, provide that the Issuing Bank may (but shall not be required to) pay all or any part of the maximum amount which may at any time be available for drawing thereunder to the beneficiary thereof upon the occurrence or continuation of an Event of Default and the acceleration of the maturity of the Loans, provided that, if payment is not then due to the beneficiary, the Issuing Bank shall deposit the funds in question in a segregated account with the Issuing Bank to secure payment to the beneficiary and any funds so deposited shall be paid to the beneficiary of the Letter of Credit if conditions to such payment are satisfied or returned to the Issuing Bank for distribution to the Lenders (or, if all Obligations shall have been paid in full in cash, to the Borrower) if no payment to the beneficiary has been made and the final date available for drawings under the Letter of Credit has passed. Each payment or deposit of funds by the Issuing Bank as provided in this paragraph shall be treated for all purposes of this Credit Agreement as a drawing duly honored by such Issuing Bank under the related Letter of Credit.

(b) Whenever the Borrower desires the issuance of a Letter of Credit, it shall deliver to the Agent and the Issuing Bank a written notice no later than 1:00 p.m. (New York time) at least five Business Days prior to the proposed date of issuance. That notice shall specify (i) the proposed date of issuance (which shall be a Business Day), (ii) the face amount of the Letter of Credit, (iii) the expiration date of the Letter of Credit and (iv) the name and address of the beneficiary. Such notice shall be accompanied by a brief description of the underlying transaction and upon reasonable request of the Issuing Bank or the Agent, the Borrower shall

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provide additional details regarding the underlying transaction. Concurrently with the giving of written notice of a request for the issuance of a Letter of Credit, the Borrower shall provide a precise description of the documents and the verbatim text of any certificate to be presented by the beneficiary of such Letter of Credit which, if presented by such beneficiary prior to the expiration date of the Letter of Credit, would require the Issuing Bank to make payment under the Letter of Credit; provided, however, that the Issuing Bank, in its reasonable discretion, may require customary changes in any such documents and certificates to be presented by the beneficiary. Upon issuance of each Letter of Credit, the Issuing Bank shall notify the Agent of the issuance of such Letter of Credit. Promptly after receipt of such notice, the Agent shall notify each Lender of the issuance and the amount of such Lender's respective participation in the applicable Letter of Credit.

(c) The acceptance and payment of drafts under any Letter of Credit shall be made in accordance with the terms of such Letter of Credit and the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 500, as adopted or amended from time to time. The Issuing Bank shall be entitled to honor any drafts and accept any documents presented to it by the beneficiary of such Letter of Credit in accordance with the terms of such Letter of Credit and believed by the Issuing Bank in good faith to be genuine. Except as otherwise required by Applicable Law which cannot be waived, the Issuing Bank shall not have any duty to inquire as to the accuracy or authenticity of any draft or other drawing documents which may be presented to it, but shall be responsible only to determine in accordance with customary commercial practices that the documents which are required to be presented before payment or acceptance of a draft under any Letter of Credit have been delivered and that they comply on their face with the requirements of that Letter of Credit.

(d) If the Issuing Bank shall make payment on any draft presented under a Letter of Credit (regardless of whether a Default, Event of Default or acceleration has occurred), the Issuing Bank shall give notice of such payment to the Borrower, the Agent and the Lenders and each Lender hereby authorizes and requests the Issuing Bank to advance for its account, pursuant to the terms hereof, its share of such payment based upon its participation in such Letter of Credit and agrees promptly to reimburse the Issuing Bank in immediately available funds for the Dollar equivalent of the amount so advanced on its behalf by the Issuing Bank. If any such reimbursement is not made by any Lender in immediately available funds on the same day on which the Issuing Bank shall have made payment on any such draft, such Lender shall pay interest thereon to the Issuing Bank at a rate per annum equal to the Issuing Bank's cost of obtaining overnight funds in the New York Federal Funds Market for the three (3) Business Days following the time such Lender fails to make the reimbursement and thereafter at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin.

(e) The Borrower is absolutely, unconditionally and irrevocably obligated to reimburse all amounts drawn under each Letter of Credit. If any draft is presented under a Letter of Credit, the payment of which is required to be made at any time on or before the Commitment Termination Date, then payment by the Issuing Bank of such draft shall constitute an Alternate Base Rate Loan hereunder and interest shall accrue from the date the Issuing Bank makes payment on such draft under such Letter of Credit. If any draft is presented under a Letter of Credit, the payment of which is required to be made after the Commitment Termination Date or at the time when an Event of Default or Default shall have occurred and then be continuing, then

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the Borrower shall immediately pay to the Issuing Bank, in immediately available funds, the full amount of such draft together with interest thereon at a rate per annum of 2% in excess of the rate then in effect for Alternate Base Rate Loans from the date on which the Issuing Bank makes such payment of such draft until the date it receives full reimbursement for such payment from the Borrower. The Borrower further agrees that the Issuing Bank may reimburse itself for such drawing, first, from amounts in the Clearing Account, second, from amounts in the Collection Account, and third, from the balance in any other account of the Borrower maintained with the Issuing Bank.

(f) The Borrower shall pay the following amounts to the Issuing Bank for its own account with respect to Letters of Credit issued by it hereunder:

(A) with respect to the issuance, amendment or transfer of each Letter of Credit and each drawing made thereunder, documentary and processing charges in accordance with the Issuing Bank's standard schedule for such charges in effect at the time of such issuance, amendment, transfer or drawing, as the case may be; and

(B) a fronting fee payable to the Issuing Bank equal to  $\frac{1}{4}$  of 1% of the face amount of any Letter of Credit issued hereunder payable upon the issuance of such Letter of Credit.

(g) The Borrower agrees to pay to the Agent for distribution to each Lender in respect of its L/C Exposure, such Lender's Pro Rata Share of a commission (calculated on the basis of a 360-day year) equal to 3% per annum of the daily average L/C Exposure. Such commission shall be due and payable in arrears on and through the last Business Day of each March, June, September and December (commencing the last Business Day of September, 2001) prior to the Commitment Termination Date or the expiration of the last outstanding Letter of Credit (whichever is later) and on the later of the Commitment Termination Date and the expiration of the last outstanding Letter of Credit.

(h) Promptly upon receipt by the Issuing Bank or the Agent of any amount described in Section 2.4(g), or any amount described in Section 2.4(e) previously reimbursed to the Issuing Bank by the Lenders, the Issuing Bank or the Agent (as applicable) shall distribute to each Lender its Pro Rata Share of such amount.

(i) [Intentionally omitted.]

(j) If, at any time when an Event of Default shall have occurred and be continuing, any Letters of Credit shall remain outstanding, then the Issuing Bank may, and if directed by the Required Lenders shall, require the Borrower to deliver to the Issuing Bank Cash Equivalents in an amount equal to the full amount of the L/C Exposure or to furnish other security acceptable to the Required Lenders. Any amounts so delivered pursuant to the preceding sentence shall be applied to reimburse the Issuing Bank for the amount of any drawings honored under Letters of Credit; provided, however, that if prior to the Maturity Date, (i) no Default or Event of Default is then continuing, then the Agent shall return all of such Cash Equivalents and collateral relating to such deposit to the Borrower if requested by it or (ii) Letters of Credit shall expire or be returned by the beneficiary so that the amount of the Cash

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Equivalents delivered to the Agent hereunder shall exceed the then current L/C Exposure, then such excess shall first be applied to pay any Obligations then due under this Credit Agreement and the remainder shall be returned to the Borrower.

(k) Notwithstanding the termination of the Commitments and the payment of the Loans, the obligations of the Borrower under this Section 2.4 shall remain in full force and effect until the Agent, the Issuing Bank and the Lenders shall have been irrevocably released from their obligations with regard to any and all Letters of Credit.

SECTION 2.5. Notes; Repayment. (a) The Revolving Credit Loans made by each Lender hereunder shall be evidenced by a Revolving Credit promissory note substantially in the form of Exhibit A-1 hereto (each a "Revolving Credit Note" and collectively the "Revolving Credit Notes") in the face amount of such Lender's Revolving Credit Commitment, payable to the order of such Lender, duly executed by the Borrower and dated the date hereof. The outstanding principal balance of each Revolving Credit Loan as evidenced by a Revolving Credit Note shall be payable in full on the Maturity Date, subject to acceleration as provided in Article 7.

(b) **[Intentionally omitted.]**

(c) Each of the Notes shall bear interest on the outstanding principal balance thereof as set forth in Section 2.6 hereof. Each Lender and the Agent on its behalf is hereby authorized by the Borrower, but not obligated, to enter the amount of each Loan and the amount of each payment or prepayment of principal or interest thereon in the appropriate spaces on the reverse of or on an attachment to the Notes; provided, however, that the failure of any Lender or the Agent to set forth such Loans, principal payments or other information shall not in any manner affect the obligations of the Borrower to repay such Loans.

SECTION 2.6. Interest on Loans. (a) In the case of a Eurodollar Loan, interest shall be payable at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the LIBO Rate plus the Applicable Margin for Eurodollar Loans. Interest shall be payable on each Eurodollar Loan on each applicable Interest Payment Date, on the Maturity Date and on the date of a conversion of such Eurodollar Loan to an Alternate Base Rate Loan. The Agent shall determine the applicable LIBO Rate for each Interest Period as soon as practicable on the date when such determination is to be made in respect of such Interest Period and shall notify the Borrower and the Lenders of the applicable interest rate so determined. Such determination shall be conclusive absent manifest error.

(b) In the case of an Alternate Base Rate Loan, interest shall be payable at a rate per annum (computed on the basis of the actual number of days elapsed over a year of

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365/366 days, as the case may be, during such times as the Alternate Base Rate is based upon the Prime Rate, and over a year of 360 days at all other times) equal to the Alternate Base Rate plus the Applicable Margin for Alternate Base Rate Loans. Interest shall be payable on each Alternate Base Rate Loan on each applicable Interest Payment Date and on the Maturity Date.

(c) Anything in this Credit Agreement or the Notes to the contrary notwithstanding, the interest rate on the Loans or with respect to any drawing under a Letter of Credit shall in no event be in excess of the maximum permitted by Applicable Law.

SECTION 2.7. Commitment Fees and Other Fees. (a) The Borrower agrees to pay to the Agent (for the account of each Lender in accordance with its Percentage) on the last Business Day of each March, June, September and December in each year (commencing on the last Business Day of September 2001) prior to the Commitment Termination Date and on the Commitment Termination Date, an aggregate fee (the "Commitment Fees") of 0.375% per annum, computed on the basis of the actual number of days elapsed over a year of 360 days, on the average daily amount by which the aggregate amount of the Revolving Credit Commitments, as they may be reduced in accordance with the provisions of this Agreement, exceeds the sum of the principal balance of Revolving Credit Loans outstanding plus the L/C Exposure during the preceding period or quarter. Such Commitment Fees shall commence to accrue on the date on which this Agreement is fully executed and shall cease to accrue on the Commitment Termination Date.

(b) In addition, the Borrower agrees to pay to the Agent and/or the Lenders, as the case may be (without duplication) the various fees referred to in the Fee Letter.

SECTION 2.8. Termination or Reduction of Revolving Credit Commitments. (a) Upon written, facsimile or telephonic (promptly confirmed in writing) notice to the Agent, which notice must be received by the Agent not later than 1:00 p.m. New York City time on the same Business Day, the Borrower may at any time permanently terminate the Revolving Credit Commitments in their entirety or from time to time permanently reduce the Revolving Credit Commitments in part. Each such reduction shall be in a minimum aggregate amount of \$5,000,000 (or such lesser amount as is the aggregate of the Revolving Credit Commitments) or such greater amount which is an integral multiple of \$1,000,000; provided, however, that the Revolving Credit Commitments may not be reduced to an amount less than the sum of the aggregate principal balance of the Revolving Credit Loans then outstanding plus the L/C Exposure.

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(b) Simultaneously with each such termination or reduction of the Revolving Credit Commitments, the Borrower shall pay to the Agent for the account of the Lenders all accrued and unpaid Commitment Fees on the amount of the Revolving Credit Commitments so terminated or reduced through the date of such termination or reduction.

(c) Any reduction of the Revolving Credit Commitments pursuant to this Section shall be made among the Lenders ratably in accordance with their respective Percentages.

(d) [Intentionally omitted.]

**SECTION 2.9. Default Interest; Alternate Rate of Interest.** (a) So long as an Event of Default shall have occurred and be continuing (after, as well as before a judgment), the Borrower shall on demand from time to time pay interest, to the extent permitted by Applicable Law, on any then unpaid amount of the Obligations at a rate per annum (i) for the remainder of the then current Interest Period for each Eurodollar Loan, equal to 2% in excess of the rate then in effect for such Eurodollar Loan and (ii) for all periods subsequent to the then current Interest Period for each Eurodollar Loan, for all Alternate Base Rate Loans and for all other overdue amounts hereunder, equal to 2% in excess of the rate then in effect for Alternate Base Rate Loans.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, (i) the Agent shall have received notice from any Lender of such Lender's determination (which determination, absent manifest error, shall be conclusive) that Dollar deposits in the amount of the principal amount of such Eurodollar Loan are not generally available in the London interbank market or that the rate at which such Dollar deposits are being offered will not adequately and fairly reflect the cost to such Lender of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period or (ii) the Agent shall have determined that reasonable means do not exist for ascertaining the applicable LIBO Rate, the Agent shall, as soon as practicable thereafter, give written or facsimile notice of such determination by such Lender or the Agent, as applicable, to the Borrower and the Lenders, and any request by the Borrower for a Borrowing of Eurodollar Loans (or conversion to or continuation as Eurodollar Loans pursuant to Section 2.10), made after receipt of such notice and until the circumstances giving rise to such notice no longer exist, shall be deemed a request for Alternate Base Rate Loans; provided, however, that in the circumstances described in clause (i) above such deemed request shall only apply to the affected Lender's Loan.

**SECTION 2.10. Continuation and Conversion of Loans.** The continuation or conversion of any Loan pursuant to this Section 2.10 does not constitute a repayment and a reborrowing hereunder and is not subject to the conditions set forth in Section 4.2, and the designation of a Loan as an Alternate Base Rate Loan or Eurodollar Loan, and the designation of applicable Interest Periods, is merely a mechanism for determining the interest rate applicable to such Loan.

The Borrower shall have the right, at any time, (i) to convert any Eurodollar Loan or portion thereof to an Alternate Base Rate Loan or to continue such Eurodollar Loan for a successive Interest Period, or (ii) to convert any Alternate Base Rate Loan to a Eurodollar Loan, subject to the following:

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(a) the Borrower shall give the Agent prior written, facsimile or telephonic (promptly confirmed in writing) notice of each continuation or conversion hereunder of at least three (3) Business Days for each continuation or conversion hereunder; such notice shall be irrevocable and to be effective must be received by the Agent on the day required not later than 1:00 p.m., New York City time;

(b) no Event of Default or Default shall have occurred and be continuing at the time of any conversion to a Eurodollar Loan or continuation of a Eurodollar Loan into a subsequent Interest Period;

(c) no Alternate Base Rate Loan may be converted to a Eurodollar Loan and no Eurodollar Loan may be continued as a Eurodollar Loan if, after such conversion and after giving effect to any concurrent prepayment of Loans, an aggregate of more than ten (10) separate Eurodollar Loans would be outstanding hereunder with respect to each Lender (for purposes of determining the number of such Loans outstanding, Loans with different Interest Periods shall be counted as different Loans even if made on the same date);

(d) if fewer than all Eurodollar Loans and Alternate Base Rate Loans at the time outstanding shall be continued or converted, such continuation or conversion shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans held by the Lenders immediately prior to such continuation or conversion;

(e) the aggregate principal amount of Loans continued as or converted to Eurodollar Loans as part of the same borrowing shall be \$1,000,000 or such greater amount which is an integral multiple of \$500,000;

(f) accrued interest on any Eurodollar Loan (or portion thereof) being continued or converted shall be paid by the Borrower at the time of continuation or conversion;

(g) the Interest Period with respect to a new Eurodollar Loan effected by a continuation or conversion shall commence on the date of such continuation or conversion;

(h) if a Eurodollar Loan is converted to another type of Loan other than on the last day of the Interest Period with respect thereto, the amounts required by Section 2.11(b) shall be paid upon such conversion; and

(i) each request for a continuation as or conversion to a Eurodollar Loan which fails to state an applicable Interest Period shall be deemed to be a request for an Interest Period of one month.

In the event that the Borrower shall not give notice to continue or convert any Eurodollar Loan as provided above, such Loan (unless repaid) shall automatically be (i) continued as a Eurodollar Loan with an Interest Period of one month or (ii) converted to an Alternate Base Rate Loan at the expiration of the then current Interest Period at the Agent's discretion. The Agent shall, after it receives notice from the Borrower, promptly give the Lenders notice of any continuation or conversion.

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SECTION 2.11. Prepayment of Loans; Reimbursement of Lenders. (a) Subject to the terms of paragraph (b) of this Section 2.11, the Borrower shall have the right at its option at any time and from time to time to prepay (i) the Alternate Base Rate Loans, in whole or in part, upon at least one Business Day's written, facsimile or telephonic (promptly confirmed in writing) notice, in the principal amount of \$500,000 or such greater amount which is an integral multiple of \$500,000 and (ii) any Borrowings of Eurodollar Loans, in whole or in part, upon at least three Business Days' written, facsimile or telephonic (promptly confirmed in writing) notice, in the principal amount of \$1,000,000 or such greater amount which is an integral multiple of \$500,000. Each notice of prepayment shall specify the prepayment date, the Loans to be prepaid and the principal amount thereof, shall be irrevocable and shall commit the Borrower to prepay such Loans in the amount and on the date stated therein. Such notice shall also specify the expected principal amount of Loans to be outstanding after giving effect to such prepayment.

(b) The Borrower shall reimburse each Lender on demand for any loss incurred or to be incurred by it in the reemployment of the funds released (i) by any prepayment (for any reason) of any Eurodollar Loan if such Loan is repaid other than on the last day of the Interest Period for such Loan or (ii) in the event that after the Borrower delivers a notice of borrowing under Section 2.3(a) or continuation or conversion under Section 2.10(a) in respect of Eurodollar Loans, such Loan is not made, continued or converted on the first day of the Interest Period specified in such notice for any reason other than (I) a suspension or limitation under Section 2.9(b) of the right of the Borrower to select a Eurodollar Loan or (II) a breach by the Lenders of their obligation hereunder. Such loss shall be the amount as reasonably determined by such Lender as the excess, if any, of (A) the amount of interest which would have accrued to such Lender on the amount so paid or not borrowed, continued or converted at a rate of interest equal to the interest rate applicable to such Loan pursuant to Section 2.6 hereof, for the period from the date of such payment or failure to borrow, continue or convert to the last day (x) in the case of a payment other than on the last day of the Interest Period for such Loan, of the then current Interest Period for such Loan or (y) in the case of such failure to borrow, continue or convert, of the Interest Period for such Loan which would have commenced on the date of such failure to borrow, continue or convert, over (B) the amount realized by such Lender in reemploying the funds not advanced or the funds received in prepayment or realized from the Loan so continued or converted during the period referred to above. Each Lender shall deliver to the Borrower from time to time one or more certificates setting forth the amount of such loss (and in reasonable detail the manner of computation thereof) as determined by such Lender, which certificates shall be conclusive absent manifest error.

(c) In the event the Borrower fails to prepay any Loan on the date specified in any prepayment notice delivered pursuant to Section 2.11(a), the Borrower on demand by any Lender shall pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any loss incurred by such Lender as a result of such failure to prepay, including, without limitation, any loss, cost or expenses incurred by reason of the acquisition of deposits or other funds by such Lender to fulfill deposit obligations incurred in anticipation of such prepayment. Each Lender shall deliver to the Borrower and the Agent from time to time one or more certificates setting forth the amount of such loss (and in reasonable detail the manner of computation thereof) as determined by such Lender, which certificates shall be conclusive absent manifest error.

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(d) [Intentionally omitted.]

(e) The outstanding principal amount of the Loans shall be repaid immediately to the extent that the aggregate amount of the Loans plus the L/C Exposure exceeds the Total Commitment then in effect.

(f) [Intentionally omitted.]

(g) Simultaneously with each termination and/or reduction of the Total Commitment pursuant to Section 2.8, the Borrower shall pay to the Agent for the account of the Lenders the amount, if any, by which the sum of the aggregate outstanding principal amount of the Loans and the L/C Exposure exceeds the reduced Total Commitment, all accrued and unpaid interest thereon and the Commitment Fees on the amount of the Total Commitment so terminated or reduced through the date thereof.

(h) If on any day on which the Loans would otherwise be required to be prepaid but for the operation of this Section 2.11(h) (each, a "Prepayment Date"), the amount of such required prepayment exceeds the then outstanding aggregate principal amount of the Loans which consist of Alternate Base Rate Loans, and no Default or Event of Default is then continuing, then on such Prepayment Date the Borrower may, at its option, deposit Dollars into the Cash Collateral Account in an amount equal to such excess. If the Borrower makes such deposit (i) only the outstanding Alternate Base Rate Loans that are also Revolving Credit Loans shall be required to be prepaid on such Prepayment Date, and (ii) on the last day of each Interest Period in effect after such Prepayment Date the Agent is irrevocably authorized and directed to apply funds from the Cash Collateral Account (and liquidate investments held in the Cash Collateral Account as necessary) to prepay Eurodollar Loans that are also Revolving Credit Loans for which the Interest Period is then ending until the aggregate of such prepayments equals the prepayment which would have been required on such Prepayment Date but for the operation of this Section 2.11(h); provided, however, that if there are no outstanding Revolving Credit Loans, or the amount of outstanding Revolving Credit Loans is less than the required prepayment, then the outstanding Term Loans that are also Alternate Base Rate Loans shall be required to be prepaid on such Prepayment Date and on the last day of each Interest Period the Agent may apply funds in the Cash Collateral Account to prepay Eurodollar Loans that are also Term Loans as set forth in clause (ii) herein.

(i) Unless otherwise designated in writing by the Borrower, all prepayments shall be applied to the applicable principal payment set forth in this Section 2.11, first to that amount of such applicable principal payment then maintained as Alternate Base Rate Loans, and then to that amount of such applicable principal payment maintained as Eurodollar Loans in order of the scheduled expiry of Interest Periods with respect thereto.

(j) All prepayments (other than prepayments of Alternate Base Rate Loans) shall be accompanied by accrued but unpaid interest on the principal amount being prepaid to the date of prepayment.

SECTION 2.12. Change in Circumstances. (a) In the event that after the Initial Date hereof any change in Applicable Law or in the interpretation or administration thereof

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(including, without limitation, any request, guideline or policy not having the force of law) by any Governmental Authority charged with the administration or interpretation thereof or, with respect to clause (ii), (iii) or (iv) below, any change in conditions shall occur which shall:

(i) subject any Lender to, or increase the net amount of, any tax, levy, impost, duty, charge, fee, deduction or withholding with respect to any Eurodollar Loan (other than withholding tax imposed by the United States of America or any political subdivision or taxing authority thereof or any other tax, levy, impost, duty, charge, fee, deduction or withholding (x) that is measured with respect to the overall net income of such Lender or of a Lending Office of such Lender, and that is imposed by the United States of America, or by the jurisdiction in which such Lender or Lending Office is incorporated, in which such Lending Office is located, managed or controlled or in which such Lender has its principal office (or any political subdivision or taxing authority thereof or therein), or (y) that is imposed solely by reason of any Lender failing to make a declaration of, or otherwise to establish, non-residence, or to make any other claim for exemption, or otherwise to comply with any certification, identification, information, documentation or reporting requirements prescribed under the laws of the relevant jurisdiction, in those cases where a Lender may properly make such declaration or claim or so establish non-residence or otherwise comply); or

(ii) change the basis of taxation of any payment to any Lender of principal or any interest on any Eurodollar Loan or other fees and amounts payable hereunder, or any combination of the foregoing other than withholding tax imposed by the United States of America as applicable, or any political subdivision or taxing authority thereof or therein or any other tax, levy, impost, duty, charge, fee, deduction or withholding that is measured with respect to the overall net income of such Lender or of a Lending Office of such Lender, and that is imposed by the United States of America or by the jurisdiction in which such Lender or Lending Office is incorporated or carries on business, in which such Lending Office is located, managed or controlled or in which such Lender has its principal office or a presence not otherwise connected with, or required by, this transaction (or any political subdivision or taxing authority thereof or therein); or

(iii) impose, modify or deem applicable any reserve, deposit or similar requirement against any assets held by, deposits with or for the account of or loans or commitments by an office of such Lender; or

(iv) impose upon such Lender or the London interbank market any other condition with respect to the Eurodollar Loans, any Letter of Credit or this Agreement;

and the result of any of the foregoing shall be to increase the actual cost to such Lender of making or maintaining any Eurodollar Loan hereunder or to reduce the amount of any payment (whether of principal, interest or otherwise) received or receivable by such Lender, or to require such Lender to make any payment in connection with any Eurodollar Loan, in each case by or in an amount which such Lender in its sole judgment shall deem material, then and in each case the Borrower shall pay to the Agent for the account of such Lender, as provided in paragraph (c) below, such amounts as shall be necessary to compensate such Lender for such cost, reduction or payment.

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(b) If at any time and from time to time after the Initial Date any Lender shall have determined that the applicability of any law, rule, regulation or guideline adopted after the Initial Date regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or any Lending Office of such Lender) or any Lender's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Credit Agreement or the Loans made or Letters of Credit issued or participated in by such Lender pursuant hereto to a level below that which such Lender or such Lender's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered with respect to Loans made or Letters of Credit issued or participated in by such Lender hereunder.

(c) Each Lender shall deliver to the Borrower and the Agent from time to time, one or more certificates setting forth the amounts due to such Lender under paragraphs (a) and (b) above, the changes as a result of which such amounts are due and the manner of computing such amounts. Each such certificate shall be conclusive in the absence of manifest error. The Borrower shall pay to the Agent for the account of each such Lender the amounts shown as due on any such certificate within ten Business Days after its receipt of the same. No failure on the part of any Lender to demand compensation under paragraph (a) or (b) above on any one occasion shall constitute a waiver of its rights to demand compensation on any other occasion. The protection of this Section shall be available to each Lender regardless of any possible contention of the invalidity or inapplicability of any law, regulation or other condition which shall give rise to any demand by such Lender for compensation thereunder.

(d) Each Lender agrees that, as promptly as practicable after it becomes aware of the occurrence of an event or the existence of a condition that (i) would cause it to incur any increased cost under Section 2.9(b) or this Section 2.12 or (ii) would require the Borrower to pay an increased amount under Section 2.9(b) or this Section 2.12, it will use reasonable efforts to notify the Borrower of such event or condition and, to the extent not inconsistent with such Lender's internal policies, will use its reasonable efforts to make, fund or maintain the affected Loans of such Lender, or, if applicable, to participate in Letters of Credit as required by Section 2.4, through another Lending Office of such Lender if as a result thereof the additional monies which would otherwise be required to be paid or the reduction of amounts receivable by such Lender thereunder in respect of such Loans or Letters of Credit would be materially reduced, or such inability to perform would cease to exist, or the increased costs which would otherwise be required to be paid in respect of such Loans or Letters of Credit pursuant to Section 2.11(b) or this Section 2.12 would be materially reduced or the taxes or other amounts otherwise payable under Section 2.9(b) or this Section 2.12 would be materially reduced, and if, as determined by such Lender, in its sole discretion, the making, funding or maintaining of such Loans or the participation in such Letters of Credit through such other Lending Office would not otherwise materially adversely affect such Loans, such Letters of Credit or such Lender.

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SECTION 2.13. Change in Legality. (a) Notwithstanding anything to the contrary contained elsewhere in this Agreement, if any change after the date hereof in Applicable Law, guideline or order, or in the interpretation thereof by any Governmental Authority charged with the administration thereof, shall make it unlawful for any Lender to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to a Eurodollar Loan, then, by written notice to the Borrower and the Agent, such Lender may (i) declare that Eurodollar Loans will not thereafter be made by such Lender hereunder and/or (ii) require that, subject to Section 2.11(b), all outstanding Eurodollar Loans made by it be converted to Alternate Base Rate Loans, whereupon all of such Eurodollar Loans shall automatically be converted to Alternate Base Rate Loans as of the effective date of such notice as provided in paragraph (b) below. Such Lender's Pro Rata Share of any subsequent Borrowing of Eurodollar Loans shall, instead, be an Alternate Base Rate Loan unless such declaration is subsequently withdrawn.

(b) A notice to the Borrower by any Lender pursuant to paragraph (a) above shall be effective for purposes of clause (ii) thereof, if lawful, on the last day of the current Interest Period for each outstanding Eurodollar Loan and, in all other cases, on the date of receipt of such notice by the Borrower.

SECTION 2.14. Manner of Payments. All payments of principal and interest in respect of any Loans shall be pro rata among the Lenders in accordance with their Percentages. All payments by the Borrower hereunder and under the Notes shall be made without offset or counterclaim in Dollars in Federal or other immediately available funds at the office of The Chase Manhattan Bank, Loan and Agency Services Group, One Chase Manhattan Plaza, 8th Floor, New York, New York 10081, Attention: Donna Montgomery, for credit to the Clearing Account no later than 1:00 p.m., New York City time, on the date on which such payment shall be due. Any payment received at such office after such time shall be deemed received on the following Business Day. Interest in respect of any Loan hereunder shall accrue from and including the date of such Loan to but excluding the date on which such Loan is paid or converted to a Loan of a different type.

SECTION 2.15. United States Withholding. (a) Prior to the date of the initial Loans hereunder and prior to the effective date set forth in the Assignment and Acceptance with respect to any Lender becoming a Lender after the date hereof, and from time to time thereafter if requested by the Borrower or the Agent or required because, as a result of a change in law or a change in circumstances or otherwise, a previously delivered form or statement becomes incomplete or incorrect in any material respect, each Lender organized under the laws of a jurisdiction outside the United States shall provide, if applicable, the Agent and the Borrower with complete, accurate and duly executed forms or other statements prescribed by the Internal Revenue Service of the United States certifying such Lender's exemption from, or entitlement to a reduced rate of, United States withholding taxes (including backup withholding taxes) with respect to all payments to be made to such Lender hereunder and under any other Fundamental Documents.

(b) The Borrower and the Agent shall be entitled to deduct and withhold any and all present or future taxes or withholdings, and all liabilities with respect thereto, from payments hereunder or under any other Fundamental Documents, if and to the extent that the

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Borrower or the Agent in good faith determines that such deduction or withholding is required by the law of the United States, including, without limitation, any applicable treaty of the United States. In the event the Borrower or the Agent shall so determine that deduction or withholding of taxes is required, it shall advise the affected Lender as to the basis of such determination prior to actually deducting and withholding such taxes. In the event the Borrower or the Agent shall so deduct or withhold taxes from amounts payable hereunder, it (i) shall pay to or deposit with the appropriate taxing authority in a timely manner the full amount of taxes it has deducted or withheld; (ii) shall provide evidence of payment of such taxes to, or the deposit thereof with, the appropriate taxing authority and a statement setting forth the amount of taxes deducted or withheld, the applicable rate, and any other information or documentation reasonably requested by the Lenders from whom the taxes were deducted or withheld; and (iii) shall forward to such Lenders any receipt of the deducted or withheld taxes as may be issued from time to time by the appropriate taxing authority. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under the Notes are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent may withhold taxes from such payments at the applicable statutory rate in the case of payments to or for any Lender organized under the laws of a jurisdiction outside the United States.

(c) Each Lender agrees (i) that as between it and the Borrower or the Agent, it shall be the Person to deduct and withhold taxes, and to the extent required by law it shall deduct and withhold taxes, on amounts that such Lender may remit to any other Person(s) by reason of any undisclosed transfer or assignment of an interest in this Agreement to such other Person(s) pursuant to paragraph (f) of Section 13.3 and (ii) to indemnify the Borrower and the Agent and any officers, directors, agents, or employees of the Borrower or the Agent against and to hold them harmless from any tax, interest, additions to tax, penalties, reasonable counsel and accountants' fees, disbursements or payments arising from the assertion by any appropriate taxing authority of any claim against them relating to a failure to withhold taxes as required by law with respect to amounts described in clause (i) of this paragraph (c) or arising from the reliance by the Borrower or the Agent on any form or other document furnished by such Lender and purporting to establish a basis for not withholding, or for withholding at a reduced rate, taxes with respect to payments hereunder or under any other Fundamental Document.

(d) Each assignee of a Lender's interest in this Credit Agreement in conformity with Section 13.3 shall be bound by this Section 2.15, so that such assignee will have all of the obligations and provide all of the forms and statements and all indemnities, representations and warranties required to be given under this Section 2.15.

(e) Notwithstanding the foregoing, in the event that any withholding taxes or additional withholding taxes shall become payable solely as a result of any change in any statute, treaty, ruling, determination or regulation (or interpretation of any of the foregoing) occurring after the Initial Date in respect of any sum payable hereunder or under any other Fundamental Document to any Lender or the Agent (i) the sum payable by the Borrower (or, if applicable, the relevant Credit Party) shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower (or, if applicable, the

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relevant Credit Party) shall make such deductions, (iii) the Borrower (or, if applicable, the relevant Credit Party) shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with Applicable Law and (iv) the Borrower (or, if applicable, the relevant Credit Party) shall forward to such Lender or the Agent (as the case may be) the official tax receipts or other documentation pursuant to Section 2.15(b). In addition, the Borrower (and, if applicable, the relevant Credit Party) shall indemnify each Lender and the Agent for any additional withholding taxes paid by such Lender or the Agent, as the case may be, or any liability (including penalties and interest) arising therefrom or with respect thereto, whether or not such additional withholding taxes were correctly or legally asserted.

(f) In the event that a Lender receives a refund of or credit for taxes withheld or paid pursuant to clause (e) of this Section, which credit or refund is identifiable by such Lender as being a result of taxes withheld or paid in connection with sums payable hereunder or under any other Fundamental Document, such Lender shall promptly notify the Agent and the Borrower and shall, if no Event of Default has occurred and is continuing, remit to the Borrower the amount of such refund or credit allocable to payments made hereunder or under any other Fundamental Document.

(g) Each Lender agrees that after it becomes aware of the occurrence of an event that would cause the Borrower or any other Credit Party to pay any amount pursuant to Section 2.15(d), it will use reasonable efforts to notify the Borrower of such event and, to the extent not inconsistent with such Lender's internal policies, will use its reasonable efforts to make, fund or maintain the affected Loans of such Lender, or, if applicable, to participate in Letters of Credit through another Lending Office of such Lender if as a result thereof the additional monies which would otherwise be required to be paid by reason of Section 2.15(d) in respect of such Loans, Letters of Credit or participations therein would be materially reduced, and if, as determined by such Lender, in its discretion, the making, funding or maintaining of such Loans, Letters of Credit or participations therein through such other Lending Office would not otherwise materially adversely affect such Loans, Letters of Credit or participations therein or such Lender.

**SECTION 2.16. Interest Adjustments.** If the provisions of this Credit Agreement or any Note would at any time require payment by the Borrower to a Lender of any amount of interest in excess of the maximum amount then permitted by Applicable Law, the interest payments to that Lender shall be reduced to the extent necessary so that such Lender shall not receive interest in excess of such maximum amount. If, as a result of the foregoing, a Lender shall receive interest payments hereunder or under a Note in an amount less than the amount otherwise provided hereunder, such deficit (hereinafter called the "Interest Deficit") will, to the fullest extent permitted by Applicable Law, cumulate and will be carried forward (without interest) until the termination of this Agreement. Interest otherwise payable to a Lender hereunder and under a Note for any subsequent period shall be increased by the maximum amount of the Interest Deficit that may be so added without causing such Lender to receive interest in excess of the maximum amount then permitted by Applicable Law.

The amount of any Interest Deficit relating to a particular Loan and Note shall be treated as a prepayment penalty and paid in full at the time of any optional prepayment by the Borrower to the Lenders of all the Loans at that time outstanding pursuant to Section 2.11(a) hereof and a

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termination of the Commitments under Section 2.8. The amount of any Interest Deficit relating to a particular Loan and Note at the time of any complete payment of the Loans at that time outstanding (other than an optional prepayment thereof pursuant to Section 2.10(a) hereof) shall be cancelled and not paid.

### 3. REPRESENTATIONS AND WARRANTIES

In order to induce the Agent, Lenders and the Issuing Bank to enter into this Credit Agreement and to make the Loans and issue or participate in the Letters of Credit provided for herein, the Credit Parties, jointly and severally, make the following representations and warranties to, and agreements with, the Agent, the Lenders and the Issuing Bank, all of which shall survive the execution and delivery of this Agreement, the issuance of the Notes and the Letters of Credit and the making of the Loans:

**SECTION 3.1. Corporate Existence and Power.** (a) Each Credit Party is a corporation, limited liability company or partnership, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and is in good standing or has applied for authority to operate as a foreign entity in all jurisdictions where the nature of its properties or business so requires it and where a failure to be in good standing as a foreign entity would have a material adverse effect on the business, assets or condition, financial or otherwise, of such Credit Party. As of the Closing Date, the Borrower is engaged in a U.S. trade or business.

(b) Each Credit Party has the power and authority (i) to own its respective properties and carry on its respective businesses as now being conducted, (ii) to execute, deliver and perform its obligations (as applicable) under this Credit Agreement and the other Fundamental Documents and any other documents contemplated hereby, (iii) in the case of the Borrower, to borrow hereunder, (iv) to grant to the Agent, for the benefit of itself, the Issuing Bank and the Lenders, a security interest in the Collateral including the Pledged Securities, to the extent applicable, as contemplated by this Credit Agreement and the other Fundamental Documents to which it is or will be a party and (v) in the case of the Guarantors, to guarantee the Obligations as contemplated by Article 10 hereof.

(c) A list of all of the Credit Parties setting forth their jurisdictions of organization and the jurisdictions in which they are in good standing as of the Amendment No. 17 Effective Date as provided in Section 3.1(a) hereof is attached hereto as Schedule 3.1.

**SECTION 3.2. Authority and No Violation.** (a) The execution, delivery and performance of this Credit Agreement and the other Fundamental Documents by each Credit Party and the grant to the Agent for the benefit of itself, the Issuing Bank and the Lenders of a security interest in the Collateral as contemplated herein or in the other Fundamental Documents, and in the case of the Borrower, the Borrowings hereunder and the execution, delivery and performance of the Notes by the Borrower and, in the case of each Guarantor, the guaranty of the Obligations as contemplated by Article 10 hereof, (a) have been duly authorized by all necessary corporate or company (as applicable) action on the part of each Credit Party, (b) will not violate any provision of any Applicable Law, or any order of any court or other agency of the United States or any State thereof, applicable to any Credit Party or any of its respective properties or assets, (c) will not violate any provision of the Certificate of Incorporation or By-Laws, limited

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liability company agreement or other organizational document of any Credit Party, or any indenture, any agreement for borrowed money, any bond, note or other similar instrument in any material respect or any other material agreement to which any Credit Party is a party or by which any Credit Party or any of its properties or assets are bound, (d) will not be in conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement, bond, note, instrument or other material agreement and (e) will not result in the creation or imposition of any Lien, charge or encumbrance of any nature whatsoever upon any property or assets of any Credit Party other than pursuant to this Agreement or any other Fundamental Document.

(b) There are no restrictions on the transfer of any Pledged Securities other than as a result of the Credit Agreement or applicable securities laws and the regulations promulgated thereunder or such as would not prevent the Agent from exercising its remedies with respect to such Pledged Securities in the case of an Event of Default.

SECTION 3.3. Governmental and Other Approvals. All authorizations, approvals, registrations or filings with any Governmental Authority or public regulatory body (other than UCC-1 Financing Statements, the Copyright Security Agreement and the Trademark Security Agreement which will be delivered to the Agent on or prior to the Closing Date), in form suitable for recording or filing with the appropriate filing office, required for the execution, delivery and performance by the Credit Parties of this Credit Agreement and the other Fundamental Documents, and the execution and delivery by the Borrower of the Notes, have been duly obtained or made and are in full force and effect or have been duly applied for, and if any such further authorizations, approvals, registrations or filings should hereafter become necessary, the Credit Parties shall obtain or make all such authorizations, approvals, registrations or filings.

SECTION 3.4. Financial Statements. Each of the audited financial statements of the Borrower and its Consolidated Subsidiaries at December 31, 2009 together with the related statements of operations and cash flow and the related notes and supplemental information are complete and correct and have been prepared in accordance with GAAP in effect as of such date consistently applied, except as otherwise indicated in the notes to such financial statements and subject in the case of unaudited statements to changes resulting from year-end audit adjustments. All of such financial statements fairly present the financial condition or the results of operations of the Borrower and its Consolidated Subsidiaries on a consolidated basis at the dates and for the periods indicated and (in the case of the balance sheets) reflect (including the notes thereto) all known liabilities and subject in the case of unaudited statements to changes resulting from year-end audit adjustments, contingent or otherwise, as of such dates required in accordance with GAAP to be shown or reserved against, or disclosed in notes to financial statements.

SECTION 3.5. No Material Adverse Change. (a) Since December 31, 2009 there has been no material adverse change in the business, assets, condition (financial or otherwise), or results of operations of the Borrower and its Subsidiaries, taken as a whole.

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(b) No Credit Party has entered or is entering into the arrangements contemplated hereby and by the other Fundamental Documents, or intends to make any transfer or incur any obligations hereunder or thereunder, with actual intent to hinder, delay or defraud either present or future creditors. On and as of the Closing Date, on a pro forma basis after giving effect to all Indebtedness (including the Loans) expected to be borrowed or repaid on the Closing Date, (i) each Credit Party expects the cash available to such Credit Party, after taking into account all other anticipated uses of the cash of such Credit Party (including the payments on or in respect of debt referred to in clause (iii) of this Section 3.5(b)), will be sufficient to satisfy all final judgments for money damages which have been docketed against such Credit Party or which may be rendered against such Credit Party in any action in which such Credit Party is a defendant (taking into account the reasonably anticipated maximum amount of any such judgment and the earliest time at which such judgment might reasonably be anticipated to be entered); (ii) the sum of the present fair saleable value of the combined assets of all of the Credit Parties will exceed the probable liability of the Credit Parties on their debts (including their Guaranties); (iii) no Credit Party will have incurred or intends to, or believes that it will, incur debts beyond its ability to pay such debts as such debts mature (taking into account the timing and amounts of cash to be received by such Credit Party from any source and of amounts to be payable on or in respect of debts of such Credit Party and the amounts referred to in clause (i)); and (iv) each Credit Party believes it will have sufficient capital with which to conduct its present and proposed business and the property of such Credit Party does not constitute unreasonably small capital with which to conduct its present or proposed business. For purposes of this paragraph (b), "debt" means any liability or a claim, and "claim" means (y) right to payment whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (z) right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured.

SECTION 3.6. Ownership of Pledged Securities, Subsidiaries, etc. (a) Annexed hereto as Schedule 3.6(a) is a correct and complete list as of the Amendment No. 17 Effective Date, of each Credit Party showing, as to each, (i) its name, (ii) the type of entity it is, (iii) the jurisdiction in which it was incorporated or otherwise organized, (iv) in the case of each Credit Party which is a corporation, its authorized capitalization, the number of shares of its capital stock outstanding and other than as to the Borrower the ownership of its capital stock and (v) in the case of each Credit Party which is a limited liability company, the ownership of its membership interests.

(b) Except as noted on Schedule 3.6(b), as of the Amendment No. 17 Effective Date no Credit Party holds any Equity Interest or other Investment, either directly or indirectly, in any Person other than another Credit Party and no Credit Party is a general or limited partner in any joint venture or partnership.

SECTION 3.7. Copyrights, Trademarks and Other Rights. (a) As of the Amendment No. 17 Effective Date, the items of Product listed on Schedule 3.7(a) hereto comprise all of the Product in which any Credit Party has any right, title or interest (either directly, through a joint venture or partnership or otherwise). The existing U.S. copyright registration number (or if not yet obtained, the registration status) for each of the items of Product

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set forth on Schedule 3.7(a) for which any Credit Party owns the underlying copyright or an interest in copyright are as set forth on Schedule 3.7(a). Schedule 3.7(a) also identifies the location of the Physical Materials related to each item of Product owned by any Credit Party or to which any Credit Party has rights of access. To the best of each Credit Party's knowledge, all items of Product and all component parts thereof do not and will not violate or infringe upon any copyright, right of privacy, trademark, patent, trade name, performing right or any literary, dramatic, musical, artistic, personal, private, several, care, contract, property or copyright right or any other right of any Person, in any material respect or contain any libelous or slanderous material. There is no claim, suit, action or proceeding pending or, to the best of each Credit Party's knowledge, threatened against any Credit Party that involves a claim of infringement of any copyright with respect to any item of Product listed on Schedule 3.7(a), and no Credit Party has any knowledge of any existing infringement by any other Person of any copyright held by any Credit Party with respect to any item of Product listed on Schedule 3.7(a).

(b) Schedule 3.7(b) hereto (i) lists all the trademarks registered by any Credit Party as of the Amendment No. 17 Effective Date and identifies the Credit Party in whose name each such trademark is registered and (ii) specifies as to each, the jurisdictions in which such trademark has been issued or registered (or, if applicable, in which an application for such issuance or registration has been filed), including the respective registration or application numbers and applicable dates of registration or application and (iii) specifies as to each, as applicable, material licenses, sublicenses and other material agreements as of the Amendment No. 17 Effective Date (other than any agreements which relate to the exploitation of an item of Product), to which any Credit Party is a party and pursuant to which any Person, other than a Credit Party, is authorized to use such trademark.

(c) All applications and registrations for all copyrights, trademarks, service marks, trade names and service names in which any Credit Party has any right, title or interest are valid and in full force and effect and are not subject to the payment of any taxes or maintenance fees or the taking of any other actions by the Credit Parties (other than standard renewals) to maintain their validity or effectiveness.

**SECTION 3.8. Fictitious Names.** None of the Credit Parties has done business, is doing business or intends to do business other than under its full corporate or company name (as applicable), including, without limitation, under any tradename or other doing business name other than as listed on Schedule 3.8.

**SECTION 3.9. Title to Properties.** The Credit Parties have good title to each of the properties and assets reflected on the financial statements referred to in Section 3.4 or delivered pursuant to Section 5.1(a) hereof and all such properties and assets will be free and clear of Liens, except Permitted Encumbrances.

**SECTION 3.10. UCC Filing Information.** The chief executive office of each Credit Party is, as of the Amendment No. 17 Effective Date, as set forth on Schedule 3.10 hereto, the state of incorporation or formation of each Credit Party is listed on Schedule 3.10 hereto and the place where each Credit Party keeps the records concerning the Collateral as of the Amendment

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No. 17 Effective Date or regularly keeps any goods included in the Collateral as of the Amendment No. 17 Effective Date are also listed on Schedule 3.10 hereto.

SECTION 3.11. Litigation. Except as set forth on Schedule 3.11, there are no actions, lawsuits or other proceedings pending (including, but not limited to, matters relating to environmental liability), or, to the knowledge of any Credit Party, threatened, against or affecting any Credit Party or any of its respective properties, by or before any Governmental Authority, arbitration panel, or arbitrator, which could reasonably be expected to have a Material Adverse Effect on the financial condition or the business of any Credit Party or which involve this Agreement or any of the transactions contemplated hereby. No Credit Party is in default with respect to any order, writ, injunction, decree, rule or regulation of any Governmental Authority, which default would have a Material Adverse Effect.

SECTION 3.12. Federal Reserve Regulations. No Credit Party is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No part of the proceeds of the Loans will be used, directly or indirectly, and whether immediately, incidentally or ultimately to purchase or carry any Margin Stock, to extend credit to others for the purpose of purchasing or carrying any Margin Stock or for any other purpose violative of or inconsistent with any of the provisions of any regulations of the Board of Governors of the Federal Reserve System, including, without limitation, Regulations D, T, U and X.

SECTION 3.13. Investment Company Act. No Credit Party will during the term of this Agreement be, (x) an "investment company", within the meaning of the Investment Company Act of 1940, as amended or (y) subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or any foreign, federal or local statute or regulation limiting its ability to incur indebtedness for money borrowed as contemplated hereby or by any other Fundamental Document.

SECTION 3.14. Binding Agreements. This Credit Agreement and the other Fundamental Documents when executed will constitute, the legal, valid and enforceable obligations of each Credit Party that is a party thereto enforceable against such Credit Party in accordance with its respective terms, subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and to general principles of equity.

SECTION 3.15. Taxes. All federal, state and local tax returns which are required to be filed by or on behalf of the Credit Parties have been filed, and the Credit Parties have paid or caused to be paid all taxes payable by the Credit Parties as shown on said returns or on any assessment received by them in writing, to the extent that such taxes have become due, except as permitted by Section 5.11 hereof. No Credit Party knows of any material additional assessments or any basis therefore. The Credit Parties believe that the charges, accruals and reserves on their books in respect of taxes or other governmental charges are accurate in all material respects.

SECTION 3.16. Compliance with ERISA and Applicable Law. (a) Each Plan has been maintained and operated in all material respects in accordance with all applicable laws, including

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ERISA and the Code, and each Plan intended to qualify under section 401(a) of the Code so qualifies. No Reportable Event has occurred in the last five years as to any Plan. No Plan has any "accumulated funding deficiency" as defined in section 302 of ERISA or Section 412 of the Code (whether or not waived) and no application has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standards (including required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to a Plan. No material liability has been, and no circumstances exist pursuant to which any material liability could be, imposed upon any Credit Party or ERISA Affiliate (i) under sections 4971 through 4980B of the Code, section 502(i) or 502(l) of ERISA, or Title IV of ERISA with respect to any Plan or Multiemployer Plan or with respect to any plan heretofore maintained by any Credit Party or ERISA Affiliate or any entity that heretofore was an ERISA Affiliate or (ii) for the failure to fulfill any obligation to contribute to any Multiemployer Plan. No material liability has been, and no circumstances exist pursuant to which any material liability could be, imposed upon any Credit Party with respect to any Plan that provides post-retirement welfare coverage (other than as required pursuant to Section 4980B of the Code). Neither any Credit Party nor any ERISA Affiliate has received any notification that any Multiemployer Plan is in reorganization or has been terminated within the meaning of Title IV of ERISA, and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated.

(b) The execution, delivery and performance of the Fundamental Documents and the consummation of the transactions contemplated hereby and thereby will not involve any "prohibited transaction" within the meaning of ERISA or the Code.

SECTION 3.17. Agreements. (a) No Credit Party is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument (including any License Agreement or Platform Agreement) to which it is a party which could reasonably be expected to have a Material Adverse Effect or result in the loss of more than 5,000,000 Subscribers.

(b) Schedule 3.17 is a true and complete listing as of the Amendment No. 17 Effective Date of (i) all credit agreements, indentures, and other agreements related to any indebtedness for borrowed money of any Credit Party, other than the Fundamental Documents and intercompany indebtedness among the Credit Parties, (ii) all joint venture agreements to which any Credit Party is a party, (iii) all material License Agreements and Platform Agreements, (iv) all agreements or other arrangements pursuant to which a Credit Party has granted a Lien to any Person other than Permitted Encumbrances and (v) all other contractual arrangements entered into by a Credit Party or by which any Credit Party is bound which arrangements are material to any Credit Party, including but not limited to, Guaranties and employment agreements. For purposes of this Section 3.17, a Platform Agreement or other contract, agreement or arrangement shall be deemed "material" if the Credit Parties reasonably expect that any Credit Party would, pursuant to the terms thereof, (A) recognize future revenues in excess of US\$1,000,000 per annum or, (B) incur liabilities, obligations or expenses in excess of US\$1,000,000 per annum. Schedule 3.17B is a true and complete listing as of the Amendment No. 17 Effective Date of all material (with materiality determined in accordance with the preceding sentence) agreements between any Credit Party and any of their non-Credit Party Affiliates.

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SECTION 3.18. Indebtedness; Guaranties; Liens. (a) Except for this Agreement and as otherwise disclosed on Schedule 3.18(a), as of the Amendment No. 17 Effective Date no Credit Party has any outstanding Indebtedness except for intercompany indebtedness among the Credit Parties.

(b) Except for this Agreement and as otherwise disclosed on Schedule 3.18(b), as of the Amendment No. 17 Effective Date no Credit Party is responsible for any Indebtedness of any other Person.

(c) Except for (i) Liens arising under this Agreement, (ii) Liens disclosed on Schedule 3.18(c) and (iii) Permitted Encumbrances no Credit Party has granted or is aware of the existence of any Liens on any property of any Credit Party.

SECTION 3.19. Security Interest; Other Security. This Agreement and the other Fundamental Documents, when executed and delivered and, to the extent appropriate, filed in locations where required by law, in connection with the execution and delivery hereof will create and grant to the Agent for the benefit of itself, the Issuing Bank and the Lenders (upon the making of the first Loan hereunder, the filing of the appropriate UCC-1 financing statements, the Copyright Security Agreement with the United States Copyright Office, the Trademark Security Agreement with the Patent and Trademark Office and delivery of the Pledged Securities with appropriate stock powers to the Agent) a valid and first priority perfected security interest in the Collateral located in the United States subject only to Permitted Encumbrances.

SECTION 3.20. Disclosure. Neither this Credit Agreement nor any other Fundamental Document nor any other agreement, document, certificate or statement furnished to the Agent for the benefit of the Lenders by or on behalf of any Credit Party in connection with the transactions contemplated hereby at the time it was furnished contained any untrue statement of a material fact or omitted to state a material fact, under the circumstances under which it was made, necessary in order to make the statements contained herein or in any other Fundamental Document not misleading in any material respect. At the date hereof, there is no fact relating to any Credit Party known to any Credit Party which would have a Material Adverse Effect or would reasonably be expected to have a Material Adverse Effect in the future.

SECTION 3.21. Licensed Rights. The License Agreements grant to the Credit Parties sufficient rights in and to the items of Product licensed thereunder to enable the Credit Parties to perform their respective obligations under the Platform Agreements, and no Credit Party is in breach of any of its material obligations under such agreements, nor does any Credit Party have any knowledge of any breach or anticipated breach by any other parties thereto which could reasonably be expected to result in any material adverse change in the business, properties, assets, operations or condition (financial or otherwise) of any Credit Party.

SECTION 3.22. Environmental Liabilities. (a) No Credit Party has used, stored, treated, transported, manufactured, refined, handled, produced or disposed of any Hazardous Materials on, under, at, from or in any way affecting, any properties or assets owned or leased by a Credit Party, in any manner which at the time of the action in question violated in any material respect any Environmental Law governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials, and, to the

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best of each Credit Party's knowledge, no prior owner of any such property or asset or any tenant, subtenant, prior tenant or prior subtenant thereof has used Hazardous Materials on or affecting such property or asset, or otherwise, in any manner which at the time of the action in question violated in any material respect any Environmental Law governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials.

(b) To the best of each Credit Party's knowledge, (i) no Credit Party has any obligations or liabilities, known or unknown, matured or not matured, absolute or contingent, assessed or unassessed, which could reasonably be expected to have a Material Adverse Effect and (ii) no claims have been made against any of the Credit Parties in the past five years and no presently outstanding citations or notices have been issued against any of the Credit Parties, which could reasonably be expected to have a Material Adverse Effect which in either case have been or are imposed by reason of or based upon any provision of any Environmental Law, including, without limitation, any such obligations or liabilities relating to or arising out of or attributable, in whole or in part, to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or handling of any Hazardous Materials by any Credit Party, or any of its employees, agents, representatives or predecessors in interest in connection with or in any way arising from or relating to any of the Credit Parties or any of their respective owned or leased properties, or relating to or arising from or attributable, in whole or in part, to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or handling of any such substance, by any other Person at or on or under any of the real properties owned or used by any of the Credit Parties or any other location where such could reasonably be expected to have a Material Adverse Effect.

**SECTION 3.23. Pledged Securities.** (a) Annexed hereto as Schedule 3.23 is a correct and complete list as of the Amendment No. 17 Effective Date, of all the Pledged Securities hereunder showing, as to each, the entity whose stock or other Equity Interests are being pledged, the Pledgor of such stock or other Equity Interests, the stock certificate number (as applicable) and the number of shares or amount of the capital stock or other Equity Interests being pledged hereunder. Each Pledgor (i) is the legal and beneficial owner of, and has sole right, title and interest to, the Pledged Securities owned by such Pledgor, free and clear of all Liens, security interests or other encumbrances whatsoever, except the security interests created by this Credit Agreement and the other Fundamental Documents and (ii) has sole right and power to pledge, and grant the security interest in, and Lien upon, such Pledged Securities pursuant to this Credit Agreement and the other Fundamental Documents without the consent of any Person or Governmental Authority whatsoever.

(b) All of the Pledged Securities are duly authorized, validly issued, fully paid and non-assessable.

(c) Except for contractual restrictions disclosed on Schedule 3.23 and restrictions created herein or under applicable securities laws and the regulations promulgated thereunder, there are no restrictions on the transfer of any of the Pledged Securities.

(d) Except as set forth on Schedule 3.23, there are no warrants, options, conversion or similar rights currently outstanding with respect to, and no agreements to purchase

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or otherwise acquire, any shares of the capital stock or other Equity Interests of any issuer of any of the Pledged Securities; and there are no securities or obligations of any kind convertible into any shares of the capital stock or other Equity Interests of any issuer of any of the Pledged Securities.

(e) Article 11 of this Credit Agreement creates in favor of the Agent (on behalf of the Agent, the Issuing Bank and the Lenders) a valid, binding and enforceable security interest in, and Lien upon, all right, title and interest of the Pledgors in the Pledged Securities and constitutes a fully perfected first and prior security interest and Lien upon all right, title and interest of the Pledgors in such Pledged Securities subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, reorganization and similar laws affecting creditors' rights generally and to general principles of equity.

SECTION 3.24. Compliance with Laws. No Credit Party is in violation of any Applicable Law except for such violations which in the aggregate would not have a Material Adverse Effect. The Borrowings hereunder, the intended use of the proceeds of the Loans as described in the preamble hereto and as contemplated by Section 5.17 hereof and any other transactions contemplated hereby will not violate any Applicable Law.

SECTION 3.25. Bank Accounts. As of the Amendment No. 17 Effective Date, the Credit Parties have no bank accounts other than those listed on Schedule 3.25.

#### 4. CONDITIONS OF LENDING

SECTION 4.1. [THE TEXT OF SECTION 4.1 OF THE CREDIT AGREEMENT IS INTENTIONALLY OMITTED FROM THIS EXHIBIT A TO AMENDMENT NO. 17; NO CHANGES ARE BEING EFFECTUATED TO SECTION 4.1 OF THE CREDIT AGREEMENT FROM THOSE PREVIOUSLY IN EFFECT VIA AMENDMENT NO. 17, AND THE CONDITIONS PRECEDENT SET FORTH IN SECTION 4.1 WERE SATISFIED OR WAIVED ON OR ABOUT AUGUST 31, 2001]

SECTION 4.2. Conditions Precedent to Each Loan and Letter of Credit. The obligation of the Lenders (including the Agent) to make each Loan (including the initial Loan) and to participate in each Letter of Credit (including the initial Letter of Credit) and of the Issuing Bank to issue each Letter of Credit is subject to the following conditions precedent:

(a) Notice. The Agent shall have received a notice with respect to such Borrowing or the Issuing Bank shall have received a notice with respect to such Letter of Credit as required by Article 2 hereof.

(b) Representations and Warranties. The representations and warranties set forth in Article 3 hereof and in the other Fundamental Documents shall be true and correct in all material respects on and as of the date of each Borrowing or issuance of a Letter of Credit hereunder (except to the extent that such representations and warranties expressly relate to an earlier date, in which case they shall be true and correct as of such earlier date, or changed circumstances specifically contemplated by, and allowed pursuant to, this Agreement) with the same effect as if made on and as of such date.

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(c) No Event of Default. On the date of each Borrowing or issuance of a Letter of Credit hereunder, the Credit Parties shall be in material compliance with all of the terms and provisions set forth herein to be observed or performed and no Event of Default or Default shall have occurred and be continuing nor shall any such event occur by reason of the making of such Loans or issuance of such Letter of Credit.

(d) Borrowing Certificate. On the date of each Borrowing hereunder, the Agent shall have received a borrowing certificate, substantially in the form of Exhibit D hereto (the "Borrowing Certificate"), executed by an Authorized Officer of the Borrower, dated the date of such Borrowing, containing a certification by the chief financial officer of the Borrower, that (i) no Event of Default or Default has occurred or is continuing and (ii) no Event of Default or Default will occur if the Lenders should make the Loans requested.

(e) Additional Documents. The Lenders shall have received from the Borrower on the date of such Borrowing or issuance of a Letter of Credit such documents and information as they may reasonably request relating to the satisfaction of the conditions in this Section 4.2.

Each Borrowing or request for issuance of a Letter of Credit shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing or issuance as to the matters specified in paragraphs (b) and (c) of this Section.

## 5. AFFIRMATIVE COVENANTS

From the date hereof and for as long as the Commitments shall be in effect, any amount shall remain outstanding under the Notes, any Letter of Credit shall remain unpaid or unsatisfied, or any other Obligations remain unpaid or unsatisfied, each Credit Party agrees that, unless the Required Lenders shall otherwise consent in writing, each of them will:

### SECTION 5.1. Financial Statements and Reports. Furnish or cause to be furnished to the Agent:

(a) Within 90 days after the end of each fiscal year, all audited financial statements that the Borrower was required to submit to the S.E.C. as part of its public filings for such fiscal year;

(b) Within 45 days after the end of each of the first three fiscal quarters of each of its fiscal years, all unaudited financial statements that the Borrower was required to submit to the S.E.C. as part of its public filings for such fiscal quarter;

(c) Simultaneously with the delivery of the statements referred to in paragraphs (a) and (b) of this Section 5.1, a certificate of an Authorized Officer of the Borrower, in form and substance satisfactory to the Agent (i) stating that in the course of the performance of his duties, he would normally have knowledge of any condition or event which would

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constitute an Event of Default or Default and stating whether or not he has knowledge of any such condition or event and, if so, specifying each such condition or event of which he has knowledge and the nature thereof (ii) demonstrating in detail satisfactory to the Agent compliance with the provisions of Sections 6.5(iv)(a) and 6.15 hereof; and (iii) certifying that all filings required under Section 5.8 hereof have been made and listing each such filing that has been made since the date of the last certificate delivered in accordance with this Section 5.1(c);

(d) [Intentionally omitted;]

(e) From time to time such additional information regarding the financial condition, business or business prospects of the Credit Parties, the amount of film inventory in which any of the Credit Parties has rights on an individual or market basis or otherwise regarding the Collateral, as any Lender may reasonably request.

SECTION 5.2. Corporate Existence. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its corporate existence (provided, that any Credit Party may merge into or consolidate with another Credit Party, provided further that the Borrower, if it is a party thereto, is the surviving entity), and material rights, licenses, permits and franchises, and comply in all material respects with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, any Governmental Authority.

SECTION 5.3. Maintenance of Properties. Keep its tangible properties which are material to its business in good repair, working order and condition subject to ordinary wear and tear and, from time to time (i) make all necessary and proper repairs, renewals, replacements, additions and improvements thereto and (ii) comply at all times with the provisions of all material leases and other material agreements to which it is a party so as to prevent any loss or forfeiture thereof or thereunder unless compliance therewith is being currently contested in good faith by appropriate proceedings and appropriate reserves have been established in accordance with GAAP.

SECTION 5.4. Notice of Material Events. (a) Promptly upon any Executive Officer of a Credit Party obtaining knowledge of (i) any Default or Event of Default, or becoming aware that the Agent, the Issuing Bank or any Lender has given notice or taken any other action with respect to a claimed Event of Default, (ii) any material adverse change in the condition or operations of any Credit Party, financial or otherwise, (iii) any action or event which could reasonably be expected to materially and adversely affect the performance of the Credit Parties' obligations under this Credit Agreement or any other Fundamental Document, the repayment of the Notes, or the security interests granted to the Agent for the benefit of itself, the Issuing Bank and the Lenders under this Credit Agreement or any other Fundamental Document, (iv) any other event which could reasonably be expected to result in a Material Adverse Effect, (v) the opening of any office of a Credit Party or the change of the executive office, jurisdiction or form of organization, or the principal place of business of any Credit Party or of the location of any Credit Party's books and records, (vi) any change in the name of any Credit Party, (vii) any other event which could reasonably be expected to materially and adversely impact upon the amount of collectability of any material accounts receivable of the Credit Parties or materially decrease the value of the Collateral or the Pledged Securities, (viii) any proposed material amendment to any material agreements that are part of the Collateral that could reasonably be anticipated to

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negatively impact the value of the Collateral, or (ix) any Person giving any notice to any Credit Party or taking any other action with respect to a claimed default or event or condition of the type referred to in paragraph (e) of Article 7, such Credit Party shall promptly give written notice thereof to the Agent specifying the nature and period of existence of any such condition or event, or specifying the notice given or action taken and the nature of such claimed Event of Default or condition and what action such Credit Party has taken, is taking and proposes to take with respect thereto.

(b) [Intentionally omitted.]

SECTION 5.5. Insurance. (a) Keep its assets which are of an insurable character insured (to the extent and for the time periods consistent with normal industry practices) by financially sound and reputable insurers against loss or damage by fire, explosion, theft or other hazards which are included under extended coverage in amounts not less than the insurable value of the property insured or such lesser amounts, and with such self-insured retention or deductible levels, as are consistent with customary industry practices.

(b) Maintain with financially sound and reputable insurers, insurance against other hazards and risks and liability to Persons and property to the extent and in the manner customary for companies in similar businesses.

(c) Maintain, or cause to be maintained, in effect during the period from the date of acquisition of each item of Product acquired by any Credit Party until such time as the Agent shall have been provided with satisfactory evidence of the existence of one negative or master tape in one location and in another location, an interpositive or internegative or duplicate master tape of the final version of the completed Product, insurance on the negatives and sound tracks of such item of Product in an amount not less than the cost of re-shooting the principal photography of the item of Product and otherwise recreating such item of Product.

(d) Maintain, or cause to be maintained, distributor's "Errors and Omissions" insurance to the extent and in amounts consistent with or greater than customary industry standards.

(e) Maintain, or cause to be maintained, broadcaster's "Errors and Omissions" insurance to the extent and in amounts consistent with or greater than customary industry standards.

(f) Cause all such above-described insurance (excluding worker's compensation insurance) to (1) provide for the benefit of the Lenders that 30 days' prior written notice of suspension, cancellation, termination, reduction, non-renewal or lapse or material change of coverage shall be given to the Agent; (2) name the Agent for the benefit of the Lenders as a loss payee (except for "Errors and Omissions" insurance and other third party liability insurance), provided, however, that so long as an Event of Default has occurred and is continuing, property insurance proceeds may be used to repair damage in respect of which such proceeds were received or so long as no Default or Event of Default has occurred and is then continuing, to reimburse a Credit Party for its own funds expended to repair the applicable damage; and (3) to the extent that neither the Agent nor the Lenders shall be liable for premiums

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or calls, name the Agent for the benefit of the Lenders as an additional insured including, without limitation, under any "Errors and Omissions" insurance and other third party liability insurance but only from claims arising from the acts or omissions of any Credit Party or its employees, representatives or contractors.

(g) Upon the request of the Agent, the Borrower will render to the Agent a statement in such detail as the Agent may request as to all such insurance coverage.

SECTION 5.6. [Intentionally omitted.]

SECTION 5.7. [Intentionally omitted.]

SECTION 5.8. Books and Records. Maintain or cause to be maintained at all times true and complete books and records of its financial operations and provide the Agent and its representatives (and each Lender and its representatives during the continuance of an Event of Default) access to such books and records and to any of its properties or assets upon reasonable notice and during regular business hours in order that the Agent (or such Lender) may make such audits and examinations and make abstracts from such books, accounts, records and other papers pertaining to the Collateral (including, but not limited to, all on and off balance sheet receivables) and may discuss the affairs, finances and accounts with, and be advised as to the same by the Credit Parties' officers and independent accountants, all as the Agent (or such Lender) may deem appropriate for the purpose of verifying the various reports delivered by any Credit Party to the Agent and/or the Lenders pursuant to this Credit Agreement or for otherwise ascertaining compliance with this Credit Agreement or any Fundamental Document.

SECTION 5.9. Observance of Agreements. Duly observe and perform in all material respects all the terms and conditions of all material agreements with respect to the distribution and/or exploitation of items of Product and diligently protect and enforce the rights of the Credit Party under all such agreements in a manner consistent with prudent business judgment and subject to the terms and conditions of such agreements.

SECTION 5.10. Laboratories; No Removal. (a) To the extent any Credit Party has control over or rights to receive any of the Physical Materials relating to any item of Product, deliver or cause to be delivered to a Laboratory or Laboratories all negative and preprint material, master tapes and all sound track materials with respect to each such item of Product and deliver to the Agent a fully executed Pledgeholder Agreement with respect to such materials. To the extent that any Credit Party has only rights of access to preprint material or master tapes and has not created duplicate materials sufficient to exploit its rights and has not stored such duplicate materials at a Laboratory that has delivered a Pledgeholder Agreement to the Agent, then the Credit Parties will deliver to the Agent a fully executed Laboratory Access Letter covering such materials. Prior to requesting any Laboratory to deliver such negative or other preprint or sound track material or master tapes to another Laboratory, any such Credit Party shall provide the Agent with a Pledgeholder Agreement or Laboratory Access Letter, as appropriate, executed by such other Laboratory and all other parties to such Pledgeholder Agreement (including the Agent). Without the consent of the Agent, no Credit Party shall deliver or remove or cause the delivery or removal of the original negative and film or sound materials or master tapes with respect to any item of Product owned by such Credit Party or in

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which such Credit Party has an interest (i) to a location outside the United States or (ii) to any state or jurisdiction where UCC-1 financing statements have not been filed against such Credit Party.

(b) With respect to items of Product acquired after the Closing Date, on at least a quarterly basis, deliver to the Agent and the Laboratories which are signatories to Pledgeholder Agreements a revised schedule of Product on deposit with such Laboratories.

SECTION 5.11. Taxes and Charges; Indebtedness in Ordinary Course of Business. Duly pay and discharge, or cause to be paid and discharged, before the same shall become in arrears, all taxes, assessments, levies and other governmental charges, imposed upon any Credit Party or its properties, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies which if unpaid could reasonably be expected to become by law a Lien upon any property of a Credit Party; provided, however, that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower shall have set aside on its books reserves (the presentation of which is segregated to the extent required by GAAP) adequate with respect thereto if reserves shall be deemed necessary; and provided, further, that such Credit Party will pay all such taxes, assessments, levies or other governmental charges forthwith upon the commencement of proceedings to foreclose any Lien which may have attached as security therefor. The Credit Parties will pay when due, or in conformance with customary trade terms all other obligations incident to their respective operations.

SECTION 5.12. Liens. Defend the Collateral (including, without limitation, the Pledged Securities) to the extent commercially reasonable against any and all Liens howsoever arising, other than Permitted Encumbrances and in any event defend against any attempted foreclosure.

SECTION 5.13. Cash Receipts. In the event any Credit Party receives (i) payment from any obligor, which payment should have been remitted to the Agent or (ii) the proceeds of any sale of Product, whether in the form of cash or otherwise, such Credit Party shall immediately remit such payment or proceeds to the Agent for deposit to the Collection Account.

SECTION 5.14. [Intentionally omitted.]

SECTION 5.15. [Intentionally omitted.]

SECTION 5.16. Environmental Laws. (a) Promptly notify the Agent upon any Executive Officer becoming aware of any violation or potential violation or non-compliance with, or liability or potential liability under any Environmental Laws which, when taken together with all other pending violations could reasonably be expected to have a Material Adverse Effect, and promptly furnish to the Agent all notices of any nature which any Credit Party or any Subsidiary may receive from any Governmental Authority or other Person with respect to any violation, or potential violation or non-compliance with, or liability or potential liability under any Environmental Laws which, in any case or when taken together with all such other notices, could reasonably be expected to have a Material Adverse Effect.

(b) Comply in all material respects with and use reasonable efforts to ensure compliance in all material respects by all tenants and subtenants with all Environmental Laws,

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and obtain and comply in all material respects with and maintain and use best efforts to ensure that all tenants and subtenants obtain and comply in all material respects with and maintain any and all licenses, approvals, registrations or permits required by Environmental Laws.

(c) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under all Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities. Any order or directive whose lawfulness is being contested in good faith by appropriate proceedings shall be considered a lawful order or directive when such proceedings, including any judicial review of such proceedings, have been finally concluded by the issuance of a final non-appealable order; provided, however, that the appropriate Credit Party shall have set aside on its books reserves (the presentation of which is segregated to the extent required by GAAP) adequate with respect thereto if reserves shall be deemed necessary.

(d) Defend, indemnify and hold harmless the Agent, the Issuing Bank and the Lenders, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way related to the violation of or non-compliance by any Credit Party with any Environmental Laws, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, reasonable external attorney and consultant fees, investigation and laboratory fees, court costs and litigation expenses, but excluding therefrom all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses arising out of or resulting from (i) the gross negligence or willful acts or willful misconduct of any indemnified party or (ii) any acts or omissions of any indemnified party occurring after any indemnified party is in possession of, or controls the operation of, any property or asset.

SECTION 5.17. [Intentionally omitted.]

SECTION 5.18. Further Assurances; Security Interests. (a) Upon the request of the Agent, duly execute and deliver, or cause to be duly executed and delivered, at the cost and expense of the Borrower, such further instruments as may be necessary or proper, in the reasonable judgment of the Agent, to provide the Agent (for the benefit of itself, the Issuing Bank and the Lenders) a perfected Lien in the Collateral and to carry out the provisions and purposes of this Agreement and the other Fundamental Documents.

(b) Upon the request of the Agent, promptly perform or cause to be performed any and all acts and execute or cause to be executed any and all documents (including, without limitation, the execution, amendment or supplementation of any financing statement and continuation statement or other statement) for filing under the provisions of the UCC and the rules and regulations thereunder, or any other statute, rule or regulation of any applicable foreign, federal, state or local jurisdiction, which are necessary or advisable, from time to time, in order to grant and maintain in favor of the Agent for the ratable benefit of itself, the Issuing Bank and the Lenders as beneficiaries thereof the security interest in the Collateral contemplated hereunder and under the other Fundamental Documents, subject (other than in connection with the Pledged Securities) only to Permitted Encumbrances.

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(c) Promptly undertake to deliver or cause to be delivered to the Lenders from time to time such other documentation, consents, authorizations and approvals in form and substance satisfactory to the Agent, as the Agent shall deem reasonably necessary or advisable to perfect or maintain the Liens of the Agent for the benefit of itself, the Issuing Bank and the Lenders.

(d) [Intentionally omitted.]

SECTION 5.19. [Intentionally omitted.]

## 6. NEGATIVE COVENANTS

From the date hereof and for so long as the Commitments shall be in effect, any amount shall remain outstanding under the Notes, any Letter of Credit shall remain unpaid or unsatisfied, or any other Obligations remain unpaid or unsatisfied, each Credit Party agrees that unless the Required Lenders shall otherwise consent in writing, it will not, directly or indirectly, and will not allow any Subsidiary, directly or indirectly, to:

SECTION 6.1. Limitations on Indebtedness. Incur, create, assume or suffer to exist any Indebtedness other than:

- (i) the Indebtedness represented by the Notes and the other Obligations;
  - (ii) Indebtedness in respect of secured purchase money financings, including Capital Leases, not to exceed \$47,000,000 at any time outstanding;
  - (iii) ordinary trade payables which are not yet due and payable and are not the result of a transaction which is essentially the borrowing of money;
  - (iv) Indebtedness by any Credit Party to any other Credit Party to the extent not otherwise prohibited by this Section 6.1;
  - (v) existing Indebtedness listed on Schedule 3.18(a) hereto but no increases thereof;
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(vi) Indebtedness to HCC or an Affiliate of HCC (including the Recapitalized Debt) where the obligee of such indebtedness acknowledges that same is subject to the subordination provisions of the Recapitalized Debt Intercreditor Agreement;

(vii) [Intentionally omitted.]

(viii) convertible unsecured subordinated notes issued subsequent to the Amendment No. 17 Effective Date in an amount and on terms acceptable to the Required Lenders in their sole discretion;

(ix) preferred stock (to the extent classified as Indebtedness under GAAP);

(x) [Intentionally omitted;]

(xi) [Intentionally omitted;]

(xii) [Intentionally omitted;]

SECTION 6.2. Limitations on Liens. Incur, create, assume or suffer to exist any Lien on any of the Collateral, whether now owned or hereafter acquired, except:

(i) [Intentionally omitted];

(ii) with regard to all items of Product, Liens pursuant to written security agreements (in form and substance acceptable to the Agent) in favor of guilds as required pursuant to terms of collective bargaining agreements, which Liens are (A) subordinated or junior to the claims of the Lenders hereunder pursuant to documentation that is satisfactory in form and substance to the Agent or (B) on terms otherwise acceptable to the Agent;

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(iii) deposits under workers' compensation, unemployment insurance and Social Security laws or to secure statutory obligations or surety or appeal bonds or performance or other similar bonds in the ordinary course of business (other than completion bonds);

(iv) Liens for taxes, assessments or other governmental charges or levies due and payable, the validity or amount of which is currently being contested in good faith by appropriate proceedings pursuant to the terms of Section 5.11 hereof;

(v) Liens customarily granted or incurred in the ordinary course of business to secure payment for services rendered by laboratories and production houses and suppliers of materials and equipment;

(vi) mechanic's liens and Liens in connection with secured purchase money financings to the extent permitted in Section 6.1(ii) hereof;

(vii) possessory Liens other than on Product or physical properties of Product (other than of laboratories and production houses) which (a) occur in the ordinary course of business, (b) secure normal trade debt which is not yet due and payable, (c) do not secure Indebtedness for borrowed money and (d) do not defer payment terms beyond 180 days;

(viii) Liens arising out of attachments, judgments or awards as to which an appeal or other appropriate proceedings for contest or review are promptly commenced (and as to which foreclosure and other enforcement proceedings (a) shall not have been commenced (unless fully bonded or otherwise effectively stayed) or (b) in any event shall be promptly fully bonded or otherwise effectively stayed);

(ix) Liens arising from zoning restrictions or easements;

(x) the Liens of the Agent under this Agreement, the other Fundamental Documents and other documents contemplated hereby;

(xi) existing Liens listed on Schedule 3.18(c) hereto; provided, however, that, without the consent of the Required Lenders, any Indebtedness secured by any such Lien may not be increased, extended or renewed and such Lien may not extend to any other property of the Credit Party.

(xii) interests of lessees and licensees in property owned by the Borrower or any of its Subsidiaries where such interests are created in the ordinary course of their respective leasing and licensing activities and are not created directly or indirectly in connection with the borrowing of money or the securing of Indebtedness by the Borrower or any of its Subsidiaries;

(xiii) Liens in favor of customs and revenue authorities arising as a matter of law or regulation to secure the payment of customs duties in connection with the importation of goods and deposits made to secure statutory obligations in the form of excise taxes;

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(xiv) statutory Liens of depository or collecting banks on items in collection and any accompanying documents or the proceeds thereof;

(xv) Liens arising from precautionary UCC financing statement filings regarding operating leases;

(xvi) statutory and contractual landlords Liens securing amounts which are not delinquent beyond any applicable grace period or which are being contested in good faith; and

(xvii) from and after the Amendment No. 17 Effective Date, Liens granted by the Borrower or any other Credit Party in favor of HCC or its Affiliates securing the Recapitalized Debt, so long as such Liens are subject in all respects to the Recapitalized Debt Intercreditor Agreement.

SECTION 6.3. Guaranties. Incur, create, assume or suffer to exist any Guaranty, either directly or indirectly, or otherwise in any way become responsible for any Indebtedness (including working capital maintenance, pay or play contracts or other similar obligations) of any other Person, contingently or otherwise, except (i) for the endorsement of negotiable instruments by a Credit Party in the ordinary course of business, (ii) for Guaranties which would constitute investments in items of Product not otherwise prohibited hereunder, (iii) for existing Guaranties listed on Schedule 3.18(b) hereto, (iv) as permitted in Section 6.1 hereof and (v) [Intentionally omitted].

SECTION 6.4. Limitations on Investments. Make any Investment (including any loans to any shareholder or other Affiliate of the Borrower) except:

(i) purchases of Cash Equivalents;

(ii) loans to officers and travel advances in the ordinary course of business to employees and/or officers; provided, however, that the aggregate amount of such loans and/or advances may not exceed \$2,000,000 at any time;

(iii) [Intentionally omitted;]

(iv) additional Investments not in excess of \$5,000,000 in the aggregate in entities which are not wholly-owned Subsidiaries;

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(v) with the prior written consent of the Required Lenders, investments representing ownership interests (whether in cash or otherwise) for acquisition purposes;

(vi) intercompany advances from the Borrower or any Guarantor to a Guarantor; and

(vii) [Intentionally omitted.]

SECTION 6.5. Restricted Payments. Pay or declare or enter into any agreement to pay or otherwise become obligated to make any Restricted Payments other than:

(i) stock dividends paid solely in shares of stock of the Borrower or another Guarantor which stock is not subject to any mandatory redemption or redemption at the option of the holder;

(ii) payments by a Credit Party to another Credit Party;

(iii) [Intentionally omitted];

(iv) payments to Hallmark, Hallmark Cards or an Affiliate as described below: (a) any of the following payments with respect to the Recapitalized Debt: (1) scheduled payments of interest on the Term A Loan Recapitalized Debt and on the Term Loan B Recapitalized Debt, in each case to the extent set forth in the Recapitalization Credit Agreement as in effect as of the Amendment No. 17 Effective Date (including that the Borrower may make scheduled interest payments on the Term Loan B Recapitalized Debt in cash notwithstanding that the Borrower has the option to pay interest thereon in kind through December 31, 2010) and (2) scheduled amortization of the Recapitalized Intercompany Debt and mandatory prepayments of principal (i.e., with the proceeds of dispositions, equity issuances, debt issuances and condemnations) on the Recapitalized Intercompany Debt, in each case, to the extent set forth under the Recapitalization Credit Agreement as in effect as of the Amendment No. 17 Effective Date; (b) payments with respect to any other valid outstanding obligation other than obligations set forth in clause (a) above; or (c) commercially reasonable fees to Hallmark Cards in consideration for Hallmark Cards having extended the Hallmark Cards Facility Guarantee; provided that, it shall be a condition to the making of any and all payments under this Section 6.5(iv), that (1) no Default or Event of Default has occurred and is continuing after giving effect on a pro forma basis to such payments, and (2) the Borrower is a public company;

(v) issuance of common stock for or upon conversion of preferred stock or debt of the Borrower;

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(vi) payments of dividends on the Series A Preferred Stock pursuant to the terms applicable to the Series A Preferred Stock as of the Amendment No. 17 Effective Date; provided that, it shall be a condition to the making of any and all payments under this Section 6.5(vi), that (1) no Default or Event of Default has occurred and is continuing after giving effect on a pro forma basis to such payments, and (2) the Borrower is a public company; and

(vii) issuance of common stock or payment of amounts pursuant to Restricted Stock Unit Agreements of the Borrower in settlement of awards made to employees pursuant to the terms of those Agreements.

SECTION 6.6. Limitations on Sale of Assets. Sell, lease, license, transfer or otherwise dispose of:

(i) items of Product other than in the ordinary course of business, provided that the Credit Parties shall not be entitled to sell, transfer or alienate their entire right, title or interest in and to items of Product with an aggregate value in excess of \$4,000,000; and

(ii) any of the channels owned or operated by a Credit Party (or any Subsidiary thereof), whether directly (e.g., by way of an outright sale or other disposition of the Credit Party's rights as owner or operator) or indirectly (e.g., by selling, assigning or otherwise transferring the Credit Party's rights in any Platform Agreement), provided that a Credit Party shall at all times be entitled to dispose of some or all of its rights as owner or operator of a channel in a territory to the extent such disposition is required (x) by Applicable Law in the territory in which the channel is available or (y) in order to comply with local practices and/or customs in the relevant territory relating to the ownership or operation of channels by non-residents; and

(iii) any other property of the Credit Parties, other than dispositions made in the ordinary course of business involving property with an aggregate fair market value at the time of disposition of less than \$100,000.

The limitation contained in clause (ii) of the preceding sentence shall not limit the rights of the Credit Parties to shut down existing operations they believe to be no longer financially beneficial or to acquire the ownership of, or rights to operate, channels in new territories, or to expand existing channels into new territories, through joint ventures or such other arrangements as may be otherwise permitted by the terms of this Agreement, provided that any disposition of such rights and interests (once so acquired) may only be made in compliance with the terms of clause (ii) of the preceding sentence.

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SECTION 6.7. Receivables. Sell, discount or otherwise dispose of notes, accounts receivable or other obligations owing to a Credit Party except for the purpose of collection in the ordinary course of business.

SECTION 6.8. Tax Shelters, Sale and Leaseback etc. Enter into any arrangement with any Person or Persons other than a Credit Party, whereby in contemporaneous transactions a Credit Party sells essentially all of its right, title and interest in an item of Product or upon which an item of Product is based and acquires or licenses the right to distribute or exploit such item of Product in media and markets accounting for substantially all the value of such item of Product; except on terms customary in the entertainment industry and subject to the Agent's approval.

SECTION 6.9. [Intentionally omitted.]

SECTION 6.10. [Intentionally omitted.]

SECTION 6.11. Transactions with Affiliates. Effect any transaction with an Affiliate on a basis less favorable to a Credit Party than would have been the case if such transaction had been effected at arms-length with a Person other than an Affiliate.

SECTION 6.12. Prohibition of Amendments or Waivers. Amend, alter, modify, or waive, or consent to any amendment, alteration, modification or waiver of any material agreement to which any Credit Party is a party or the terms thereof in any manner which would change, alter or waive any material term thereof and which might (i) materially and adversely affect the collectability of accounts receivable, (ii) materially and adversely affect the financial condition of the Credit Party on a consolidated basis, (iii) materially and adversely affect the rights of the Agent, the Issuing Bank or the Lenders under this Agreement, the other Fundamental Documents and any other agreements contemplated hereby, (iv) materially decrease the value of the Collateral, (v) with respect to any Recapitalization Credit Document, increase the rate of interest on any of the Recapitalized Debt, accelerate the date on which cash interest payments become obligatory for the Term B Recapitalized Indebtedness, impose any required amortization of any of the Recapitalized Debt or impose or tighten any mandatory repayment provisions beyond those in effect as of the Amendment No. 17 Effective Date or shorten any maturity date with respect to any Recapitalized Debt or which would otherwise modify any term thereof to the detriment of

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any Credit Party and/or the Lenders (and without limiting the foregoing, the Credit Parties shall not enter into any amendment to any Recapitalized Credit Document without having provided the Administrative Agent a substantially final draft thereof at least five (5) Business Days prior to the proposed execution thereof) or (vi) accelerate any date on which dividends on the Series A Preferred Stock accrue, increase the rate of dividends on the Series A Preferred Stock or reduce any flexibility of the Borrower to pay any dividend on the Series A Preferred Stock in kind rather than in cash.

SECTION 6.13. No Negative Pledge. Enter into any agreement after the date hereof (other than Fundamental Documents) which prohibits the creation or assumption of any Lien upon the properties or assets of any Credit Party, whether now owned or hereafter acquired or requiring an obligation to be secured if some other obligation is secured.

SECTION 6.14. Acquisitions or Mergers, etc. Merge into or consolidate with a Person or acquire substantially all the assets of another Person other than acquisitions of cable channels provided that such acquisitions shall not be for cash consideration and provided further, that after giving effect to any such transaction there would not exist any Default or Event of Default hereunder and a Credit Party shall be the surviving entity. In addition, (a) any Guarantor may merge with any other Guarantor or with the Borrower and (b) Hallmark Holdings and Hallmark Entertainment Investments Co. may merge into the Borrower, with the Borrower being the surviving entity, in connection with the Recapitalization.

SECTION 6.15. Production. Engage in production of Items of Product in any fiscal year having an aggregate budgeted negative cost in excess of \$5 million.

SECTION 6.16. Change in Business. Engage in any business activity other than (i) activities incident and related to the acquisition, distribution and licensing of Product; (ii) the operation of television channels; or (iii) the development and operation of the interactive television business.

SECTION 6.17. ERISA Compliance. Engage in a "prohibited transaction", as defined in Section 406 of ERISA or Section 4975 of the Code, with respect to any Plan or Multiemployer Plan or knowingly consent to any other "party in interest" or any "disqualified person", as such terms are defined in Section 3(14) or ERISA and Section 4975(e)(2) of the Code, respectively, engaging in any "prohibited transaction", with respect to any Plan or Multiemployer Plan; or permit any Plan to incur any "accumulated funding deficiency", as defined in Section 302 of ERISA or Section 412 of the Code, unless such incurrence shall have been waived in advance by the Internal Revenue Service; or terminate any Plan subject to Title IV of ERISA in a manner which could result in the imposition of a Lien on any property of any Credit Party pursuant to

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Section 4068 of ERISA; or breach or knowingly permit any employee or officer or any trustee or administrator of any Plan to breach any fiduciary responsibility imposed under Title I of ERISA with respect to any Plan; engage in any transaction which would result in the incurrence of a liability under Section 4069 of ERISA; or fail to make contributions to a Plan or Multiemployer Plan which could result in the imposition of a Lien on any property of any Credit Party pursuant to Section 302(f) of ERISA or Section 412(n) of the Code, if the occurrence of any of the foregoing events (alone or in the aggregate) could result in a liability which has a Material Adverse Effect.

SECTION 6.18. Interest Rate Protection Agreements, etc. Enter into any Interest Rate Protection Agreement or Currency Agreement for other than bona fide hedging purposes.

SECTION 6.19. Subsidiaries. Acquire or create any new direct or indirect Subsidiary; provided, however, that a Credit Party may organize additional Subsidiaries if each such Subsidiary executes an Instrument of Assumption and Joinder in the form attached hereto as Exhibit J whereby such Subsidiary becomes a Credit Party hereunder and the certificates representing 100% of the shares of capital stock or other Equity Interests, of such Subsidiary held by such Credit Party become part of the Pledged Securities hereunder and are delivered to the Agent together with stock powers for each such certificate or such other documents that are necessary providing for the transfer of a membership interest of a Subsidiary that is an LLC.

SECTION 6.20. Hazardous Materials. Cause or permit any of its properties or assets to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Materials, except in compliance in all material respects with all applicable Environmental Laws, nor release, discharge, dispose of or permit or suffer any release or disposal as a result of any intentional act or omission on its part of Hazardous Materials onto any such property or asset in material violation of any Environmental Law.

SECTION 6.21. [Intentionally omitted.]

SECTION 6.22. [Intentionally omitted.]

SECTION 6.23. [Intentionally omitted.]

SECTION 6.24. [Intentionally omitted.]

SECTION 6.25. [Intentionally omitted.]

SECTION 6.26. Corporate Structure. Create any first tier Subsidiary other than CM Intermediary or have any asset relating to the channels at a corporate level above CM Intermediary.

SECTION 6.27. [Intentionally omitted.]

SECTION 6.28. No New Liens. Permit any portion of the Recapitalized Debt or any Equity Interests issued in connection with the Recapitalization to be secured by any asset which does not secure the Facility, or permit HCC or any other holder of any of the Recapitalized Debt to file any document in order to perfect any security interest under

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any Recapitalization Credit Document unless the Administrative Agent has filed a similar document (but on a first lien basis).

## 7. EVENTS OF DEFAULT

In the case of the happening and during the continuance of any of the following events (herein called "Events of Default"):

- (a) any representation or warranty made by any Credit Party in this Credit Agreement or in any other Fundamental Document or any statement or representation made by any Credit Party in any report, financial statements, certificate or other document furnished by or on behalf of any Credit Parties to the Agent or any Lender pursuant to this Credit Agreement or any other Fundamental Document, shall prove to have been false or misleading in any material respect when made or delivered;
  - (b) default shall be made in the payment of any principal of or interest on the Loans or Letter of Credit reimbursement obligations or of any fees or other amounts payable by the Borrower hereunder, when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise, and, in the case of payments of interest, such default shall continue unremedied for five (5) days after receipt by the Borrower of an invoice therefor;
  - (c) default shall be made by any Credit Party in the due observance or performance of any covenant, condition or agreement contained in Section 5.1(h), Section 5.4 or Article 6 (other than Sections 6.3, 6.7, 6.8, 6.11, 6.15, 6.17, and 6.18) of this Agreement;
  - (d) default shall be made by any Credit Party in the due observance or performance of any other covenant, condition or agreement to be observed or performed pursuant to the terms of this Agreement, or any other Fundamental Document and such default shall continue unremedied for fifteen (15) consecutive days after any Credit Party obtains knowledge or receives written notice from the Agent or any Lender thereof;
  - (e) default shall be made with respect to any Indebtedness of any Credit Party in excess of \$1,000,000 when due or the performance of any other obligation incurred in connection with any such Indebtedness, if the effect of such default is to accelerate the maturity of such Indebtedness or to permit the holder thereof to cause such Indebtedness to become due prior to its stated maturity and such default shall not be remedied, cured, waived or consented to within the period of grace with respect thereto;
  - (f) any Credit Party or Hallmark Cards shall generally not pay its debts as they become due or shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of creditors; or any such Person shall commence any case, proceeding or other action seeking to have an order for relief entered on its behalf or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of such Person or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property or shall file an answer or other pleading in any such case, proceeding or other action
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admitting the material allegations of any petition, complaint or similar pleading filed against it or consenting to the relief sought therein; or any such Person shall take any action to authorize any of the foregoing;

(g) any involuntary case, proceeding or other action against any Credit Party or Hallmark Cards shall be commenced seeking to have an order for relief entered against it or to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition of it or its debts under any law relating to bankruptcy, insolvency, reorganization or relief of such Person, or seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its property, and such case, proceeding or other action (i) results in the entry of any order for relief against it or (ii) shall remain undismissed for a period of thirty (30) days;

(h) final judgment(s) for the payment of money in excess of \$100,000 shall be rendered in the aggregate against any Credit Party which within thirty (30) days from the entry of such judgment shall not have been discharged or stayed pending appeal or which shall not have been discharged within thirty (30) days from the entry of a final order of affirmance on appeal;

(i) this Credit Agreement, the Copyright Security Agreement, any Copyright Security Agreement Supplement or any Trademark Security Agreement (each, a "Security Document") shall, for any reason, not be or shall cease to be in full force and effect or shall be declared null and void or any of the Security Documents shall not give or shall cease to give the Agent the Liens, rights, powers and privileges purported to be created thereby in favor of the Agent for the benefit of the Agent, the Issuing Bank and the Lenders, superior to and prior to the rights of all third Persons and subject to no other Liens (other than Permitted Encumbrances), or the validity or enforceability of the Liens granted, to be granted, or purported to be granted, by any of the Security Documents shall be contested by any Credit Party or any of their respective Affiliates;

(j) [Intentionally omitted;]

(k) a Change in Control shall occur;

(l) [Intentionally omitted.]

(m) (i) any Credit Party or ERISA Affiliate shall fail to make any contributions required to be made to a Plan subject to Title IV of ERISA or Multiemployer Plan, (ii) any accumulated funding deficiency (within the meaning of Section 4971 of the Code) shall exist with respect to any Plan (whether or not waived) or an application shall have been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standards (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to a Plan, (iii) any Credit Party or ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that it has incurred withdrawal liability to such Multiemployer Plan, or that a Multiemployer Plan is in reorganization or is being terminated, (iv) a Reportable Event with respect to a Plan shall have occurred, (v) any Credit Party or ERISA Affiliate shall withdraw from a Plan during a plan year in which it was a

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substantial employer (within the meaning of section 4001(a)(2) or 4062(e) of ERISA), (vi) a U.S. Plan subject to Title IV of ERISA shall be terminated, or notice of intent to terminate a Plan under section 4041(c) of ERISA shall be filed, (vii) proceedings to terminate, a Plan subject to Title IV of ERISA shall be instituted by the PBGC or a trustee shall be appointed with respect to any such Plan, (viii) any other event or condition which could constitute grounds under section 4042(a) of ERISA for the termination of, or the appointment of a trustee to administer, any Plan subject to Title IV of ERISA shall occur, or (ix) a Lien pursuant to section 412 of the Code or section 302 of ERISA shall be imposed as to any Credit Party or ERISA Affiliate;

(n) Hallmark Cards shall have breached or disaffirmed any Fundamental Document to which it is a party or its obligations thereunder shall cease to be in full force and effect or shall be void or voidable or any such Person shall contest the enforceability of any provision thereof;

(o) [Intentionally omitted;]

(p) a termination by Hallmark Cards or by any of its affiliates of (or any notice by any such Person that it intends to terminate) the right of the Borrower or any of its Subsidiaries to use the "Hallmark" name or the "Crown" name in their respective television services or on or with respect to any channels owned or operated by the Borrower or any of its Subsidiaries;

(q) [Intentionally omitted;]

(r) [Intentionally omitted;]

(s) any default shall occur in the performance of any obligation or agreement under any of the Recapitalization Debt Documents, whether arising in connection with a failure to make payments thereunder, in connection with any breach of representation, warranty covenant or otherwise if the effect of such default is to accelerate the maturity of such Recapitalized Debt or to permit the holder thereof to cause such Indebtedness to become due prior to its stated maturity and such default shall not be remedied, cured, waived or consented to within the period of grace with respect thereto; or

(t) the Hallmark Cards Facility Guarantee shall have expired or otherwise terminated or Hallmark Cards shall have disavowed its obligations thereunder or a default shall otherwise have occurred in accordance with the terms thereof.

then, in every such event and at any time thereafter during the continuance of such event, the Agent may, or if directed by the Required Lenders shall, take any or all of the following actions, at the same or different times: (x) terminate forthwith the Commitments, (y) declare the principal of and the interest on the Loans and the Notes and all other amounts payable hereunder or thereunder to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement or in the Notes to the contrary notwithstanding and/or (z) require the Borrower to deliver to the Agent from time to time Cash Equivalents in an amount equal to the full amount of the L/C Exposure or to furnish other

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security therefor acceptable to the Required Lenders. If an Event of Default specified in paragraphs (f) or (g) above shall have occurred, the Commitments shall automatically terminate and the Notes and all other amounts payable hereunder and thereunder shall automatically become due and payable, without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived, anything in this Credit Agreement or the Notes to the contrary notwithstanding. Such remedies shall be in addition to any other remedy available to the Agent, the Lenders or the Issuing Bank pursuant to Applicable Law or otherwise.

## 8. GRANT OF SECURITY INTEREST; REMEDIES

SECTION 8.1. Security Interests. The Borrower, as security for the due and punctual payment of the Obligations (including interest accruing on and after the filing of any petition in bankruptcy or of reorganization of the Borrower whether or not post filing interest is allowed in such proceeding) and each of the Guarantors, as security for its obligations under Article 10 hereof, hereby mortgages, pledges, assigns, transfers, sets over, conveys and delivers to the Agent (for the benefit of the Agent, the Issuing Bank and the Lenders) and grants to the Agent (for the benefit of the Agent, the Issuing Bank and the Lenders) a security interest in the Collateral.

SECTION 8.2. Use of Collateral. So long as no Event of Default shall have occurred and be continuing, and subject to the various provisions of this Credit Agreement and the other Fundamental Documents, a Credit Party may use the Collateral in any lawful manner except as otherwise provided hereunder.

SECTION 8.3. Collection Accounts. (a) The Credit Parties will maintain or establish collection bank accounts (each, a "Collection Account") and will direct, by a notice of assignment and irrevocable instructions in form acceptable to the Agent, all Persons who become licensees, buyers or account debtors under receivables with respect to any item of Product included in the Collateral to make payments under or in connection with the license agreements, sales agreements or receivables directly to a Collection Account. Upon agreement between the Agent and the Borrower, a Collection Account may also serve as the Cash Collateral Account, provided that such Collection Account is in the name of the Agent (for the benefit of itself, the Issuing Bank and the Lenders) and is under the sole dominion and control of the Agent. So long as no Event of Default is continuing the Borrower shall have full and unfettered access to the Collection Accounts. A list of all Collection Accounts of the Borrower existing as of the Amendment No. 17 Effective Date is attached as Schedule 8.3.

(b) The Credit Parties will execute such documentation as may be reasonably required by the Agent in order to effectuate the provisions of this Section 8.3.

(c) In the event a Credit Party receives payment from any Person, which payment should have been remitted directly to a Collection Account, such Credit Party shall promptly remit such payment or proceeds to a Collection Account to be applied in accordance with the terms of this Credit Agreement.

(d) All such Collection Accounts shall be maintained with the Agent or with such other financial institutions as may be approved by the Agent (subject to their willingness to

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execute appropriate documentation as required by this Section 8.3), subject to the right of the Agent to at any time withdraw such approval and transfer any such Collection Account(s) to the Agent or another approved financial institution acceptable to the Borrower.

SECTION 8.4. Credit Parties to Hold in Trust. Upon the occurrence and during the continuance of an Event of Default, each Credit Party will, upon receipt by it of any revenue, income, profits or other sums in which a security interest is granted by this Article 8, payable pursuant to any agreement or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the sum in trust for the Agent (for the benefit of the Agent, the Issuing Bank and the Lenders), segregate such sum from its own assets and forthwith, without any notice or demand whatsoever (all notices, demands, or other actions on the part of the Agent, the Issuing Bank or the Lenders being expressly waived), endorse, transfer and deliver any such sums or instruments or both to the Agent to be applied to the repayment of the Obligations in accordance with the provisions of Section 8.7 hereof.

SECTION 8.5. Collections, etc. Upon the occurrence and during the continuance of an Event of Default, the Agent may, in its sole discretion, in its name or in the name of any Credit Party or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable with respect to, any of the Collateral, but shall be under no obligation so to do, or the Agent may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, or release, any of the Collateral, without thereby incurring responsibility to, or discharging or otherwise affecting any liability of, the Credit Parties. The Agent will not be required to take any steps to preserve any rights against prior parties to the Collateral. If the Credit Parties fail to make any payment or take any action required hereunder, the Agent may make such payments and take all such actions as the Agent reasonably deems necessary to protect the Agent's (for the benefit of itself, the Issuing Bank and the Lenders) security interests in the Collateral and/or the value thereof, and the Agent is hereby authorized (without limiting the general nature of the authority herein above conferred) to pay, purchase, contest or compromise any Liens that in the judgment of the Agent appear to be equal to, prior to or superior to the security interests of the Agent in the Collateral and any Liens not expressly permitted by this Credit Agreement.

SECTION 8.6. Possession, Sale of Collateral, etc. Upon the occurrence and during the continuance of an Event of Default, the Agent may enter upon the premises of any Credit Party or wherever the Collateral may be, and take possession of the Collateral, and may demand and receive such possession from any Person who has possession thereof, and the Agent may take such measures as it may deem necessary or proper for the care or protection thereof, including the right to remove all or any portion of the Collateral, and with or without taking such possession may sell or cause to be sold, whenever the Agent shall decide, in one or more sales or parcels, at such prices as the Agent may deem best, and for cash or on credit or for future delivery, without assumption of any credit risk, all or any portion of the Collateral, at any broker's board or at public or private sale, without demand of performance or notice of intention to sell or of time or place of sale (except 7 days' written notice to the Borrower of the time and place of any such public sale or sales and such other notices as may be required by Applicable Law and cannot be waived), and any Person may be the purchaser of all or any portion of the Collateral so sold and thereafter hold the same absolutely, free (to the fullest extent permitted by

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Applicable Law) from any claim or right of whatever kind, including any equity of redemption, of any Credit Party, any such demand, notice, claim, right or equity being hereby expressly waived and released. At any sale or sales made pursuant to this Article 8, the Agent may bid for or purchase, free (to the fullest extent permitted by Applicable Law) from any claim or right of whatever kind, including any equity of redemption, of any Credit Party, any such demand, notice, claim, right or equity being hereby expressly waived and released, any part of or all of the Collateral offered for sale, and may make any payment on account thereof by using any claim for moneys then due and payable to the Agent, the Issuing Bank and the Lenders by any Credit Party hereunder as a credit against the purchase price. The Agent shall in any such sale make no representations or warranties with respect to the Collateral or any part thereof, and the Agent shall not be chargeable with any of the obligations or liabilities of any Credit Party. Each Credit Party hereby agrees (i) that it will indemnify and hold the Agent, the Issuing Bank and the Lenders harmless from and against any and all claims with respect to the Collateral asserted before the taking of actual possession or control of the relevant Collateral by the Agent pursuant to this Article 8, or arising out of any act of, or omission to act on the part of, any party other than the Agent prior to such taking of actual possession or control by the Agent, or arising out of any act on the part of any Credit Party, or its agents before or after the commencement of such actual possession or control by the Agent; and (ii) none of the Agent, the Lenders or the Issuing Bank shall have any liability or obligation to any Credit Party arising out of any such claim except for acts by the Agent, the Lenders or the Issuing Bank of willful misconduct or gross negligence or acts not taken in good faith. Subject only to the lawful rights of third parties, any laboratory which has possession of any of the Collateral is hereby constituted and appointed by each Credit Party as pledgeholder for the Agent and, upon the occurrence and during the continuance of an Event of Default, each such pledgeholder is hereby authorized to sell all or any portion of the Collateral upon the order and direction of the Agent, and each Credit Party hereby waives any and all claims, for damages or otherwise, for any action taken by such pledgeholder in accordance with the terms of the UCC not otherwise waived hereunder. In any action hereunder, the Agent shall be entitled to the appointment of a receiver, without notice, to take possession of all or any portion of the Collateral and to exercise such powers as the court shall confer upon the receiver. Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default, the Agent shall be entitled to apply, without prior notice to any Credit Party, any cash or cash items constituting Collateral in the possession of the Agent to payment of the Obligations.

SECTION 8.7. Application of Proceeds on Default. Upon the occurrence and during the continuance of an Event of Default, the balances in the Clearing Account, the Collection Account(s), the Cash Collateral Account(s) or in any account of the Credit Party with a Lender, all other income earned on the Collateral, and all proceeds from any sale of the Collateral pursuant hereto shall be applied first toward payment of the reasonable out-of-pocket costs and expenses paid or incurred by the Agent in enforcing this Credit Agreement, in realizing on or protecting any Collateral and in enforcing or collecting any Obligations or any Guaranty thereof, including, without limitation, court costs and the reasonable attorney's fees and expenses incurred by the Agent, then to satisfy or provide cash Collateral for all Obligations relating to the Letters of Credit, and then to the payment in full of the Obligations in accordance with Section 12.2(b) hereof. Any amounts remaining after such payment in full shall be remitted to the appropriate Credit Party or as a court of competent jurisdiction may otherwise direct.

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**SECTION 8.8. Power of Attorney.** Upon the occurrence and during the continuance of an Event of Default which is not waived in writing by the Required Lenders (a) each of the Credit Parties does hereby irrevocably make, constitute and appoint the Agent or any of its officers or designees its true and lawful attorney-in-fact with full power in the name of the Agent or such other Person to receive, open and dispose of all mail addressed to any Credit Party, and to endorse any notes, checks, drafts, money orders or other evidences of payment relating to the Collateral that may come into the possession of the Agent, with full power and right to cause the mail of such Persons to be transferred to the Agent's own offices or otherwise, and to do any and all other acts necessary or proper to carry out the intent of this Agreement and the grant of the security interests hereunder and under the other Fundamental Documents, and each of the Credit Parties hereby ratifies and confirms all that the Agent or its substitutes shall properly do by virtue hereof; (b) each of the Credit Parties does hereby further irrevocably make, constitute and appoint the Agent or any of its officers or designees its true and lawful attorney-in-fact in the name of the Agent or any Credit Party (i) to enforce all of such Credit Party's rights under and pursuant to all agreements with respect to the Collateral, all for the sole benefit of the Agent, for the benefit of itself, the Issuing Bank and the Lenders, and to enter into such other agreements as may be necessary or appropriate in the judgment of the Agent to complete the distribution or exploitation of any item of Product which is included in the Collateral, (ii) to enter into and perform such agreements as may be necessary in order to carry out the terms, covenants and conditions of the Fundamental Documents that are required to be observed or performed by such Credit Party, (iii) to execute such other and further mortgages, pledges and assignments of the Collateral, and related instruments or agreements, as the Agent may reasonably require for the purpose of perfecting, protecting, maintaining or enforcing the security interests granted to the Agent, for the benefit of itself, the Issuing Bank and the Lenders, hereunder and under the other Fundamental Documents, and (iv) to do any and all other things necessary or proper to carry out the intention of this Agreement and the grant of the security interests hereunder. In the event the Agent exercises the power of attorney granted herein, the Agent shall use reasonable efforts to provide subsequent written notice promptly to the Borrower in accordance with Section 13.1. Each of the Credit Parties hereby ratifies and confirms in advance all that the Agent as such attorney-in-fact or its substitutes shall properly do by virtue of this power of attorney.

**SECTION 8.9. Financing Statements, Direct Payments, Confirmation of Receivables and Audit Rights.** Each Credit Party hereby authorizes the Agent to file Uniform Commercial Code financing statements (covering all of the property of such Credit Party) and any amendments thereto or continuations thereof, any Copyright Security Agreement, any Copyright Security Agreement Supplement and any Trademark Agreement Supplement and any other appropriate security documents or instruments and to give any notices necessary or desirable to perfect the Lien of the Agent (for the benefit of itself, the Issuing Bank and the Lenders) on the Collateral, in all cases without the signatures of the relevant Credit Party or to execute such items as attorney-in-fact for the Credit Party. Each Credit Party further authorizes the Agent (i) upon the occurrence and during the continuance of an Event of Default, to notify any account debtor that all sums payable to such Credit Party relating to the Collateral shall be paid directly to the Agent; (ii) to confirm directly with account debtors the amounts payable by them to such Credit Party with regard to the Collateral and the terms of all accounts receivable; and (iii) to participate with such Credit Party in the audits of its account debtors or to request that such Credit Party's auditors confirm with account debtors the amounts and terms of all accounts receivable. The

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Agent hereby agrees to provide the Borrower with copies of any notification or written requests sent by the Agent to such account debtors at the same time as the mailing of such documents.

SECTION 8.10. Further Assurances. Upon the request of the Agent, each Credit Party hereby agrees to duly and promptly execute and deliver, or cause to be duly executed and delivered, at the cost and expense of the Credit Party, such further instruments as may be necessary or proper, in the judgment of the Agent, to carry out the provisions and purposes of this Article 8, and to do all things necessary, in the judgment of the Agent, to perfect and preserve the Liens of the Agent for the benefit of itself, the Issuing Bank and the Lenders hereunder and under the other Fundamental Documents in the Collateral or any portion thereof.

SECTION 8.11. Termination and Release. The security interests granted under this Article shall terminate when all the Obligations have been indefeasibly fully paid and performed and the Commitments shall have terminated and all Letters of Credit shall have expired or been terminated or cancelled. Upon request by the Borrower (and at the sole expense of the Borrower) after such termination, the Agent will take all reasonable action and do all things reasonably necessary, including executing Uniform Commercial Code terminations, Pledgeholder Agreement terminations, termination letters to account debtors and copyright reassignments, to release the security interest granted to it hereunder.

SECTION 8.12. Remedies Not Exclusive. The remedies conferred upon or reserved to the Agent in this Article 8 are intended to be in addition to, and not in limitation of, any other remedy or remedies available to the Agent. Without limiting the generality of the foregoing, the Agent and the Lenders shall have all rights and remedies of a secured creditor under Article 9 of the UCC and under any other Applicable Law.

SECTION 8.13. Continuation and Reinstatement. Each Credit Party further agrees that the security interest granted hereunder shall continue to be effective or be reinstated, as the case may be, if at any time payment or any part thereof of any Obligation is rescinded or must otherwise be restored by the Agent, the Issuing Bank or the Lenders upon the bankruptcy or reorganization of any Credit Party or otherwise.

## 9. CASH COLLATERAL

SECTION 9.1. Cash Collateral Account. (a) On or prior to the Closing Date, there shall be established with the Agent a collateral account in the name of the Agent (the "Cash Collateral Account"), into which the Borrower shall from time to time deposit Dollars pursuant to the express provisions of this Agreement requiring or permitting such deposit. Except to the extent otherwise provided in this Section 9.1, the Cash Collateral Account shall be under the sole dominion and control of the Agent.

(b) The Agent is hereby authorized and directed to invest and reinvest the funds from time to time deposited in the Cash Collateral Account so long as no Event of Default has occurred and is continuing on the instructions of the Borrower (provided that such notice may be given verbally to be confirmed promptly in writing) or, if the Borrower shall fail to give such instruction upon delivery of any such funds, in the sole discretion of the Agent, provided that in no event may the Borrower give instructions to the Agent to, or may the Agent in its

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discretion, invest or reinvest funds in the Cash Collateral Account in other than Cash Equivalents described in clause (i) of the definition of Cash Equivalents or described in clauses (ii) and (iii) of the definition of Cash Equivalents to the extent issued by The Chase Manhattan Bank.

(c) Any net income or gain on the investment of funds from time to time held in the Cash Collateral Account shall be promptly reinvested by the Agent as a part of the Cash Collateral Account, and any net loss on any such investment shall be charged against the Cash Collateral Account.

(d) Neither the Agent nor the Lenders shall be a trustee for the Borrower, or shall have any obligations or responsibilities, or shall be liable for anything done or not done, in connection with the Cash Collateral Account, except as expressly provided herein and except that the Agent shall have the obligations of a secured party under the UCC. The Agent and the Lenders shall not have any obligation or responsibilities and shall not be liable in any way for any investment decision made pursuant to this Section 9.1 or for any decrease in the value of the investments held in the Cash Collateral Account.

SECTION 9.2. Grant of Security Interest. For value received and to induce the Lenders to make Loans from time to time to the Borrower and to acquire participations in Letters of Credit from time to time as provided for in this Credit Agreement, as security for the payment of all of the Obligations, (including interest accruing on and after the filing of any petition in bankruptcy or of reorganization of the Borrower whether or not post-filing interest is allowed in such proceeding), the Borrower hereby assigns to the Agent (for the benefit of itself, the Issuing Bank and the Lenders), and grants to the Agent (for the benefit of itself, the Issuing Bank and the Lenders), a first and prior Lien upon, all the Borrower's rights in and to the Cash Collateral Account, all cash, documents, instruments and securities from time to time held therein, and all rights pertaining to investments of funds in the Cash Collateral Account and all products and proceeds of any of the foregoing. All cash, documents, instruments and securities from time to time on deposit in the Cash Collateral Account, and all rights pertaining to investments of funds in the Cash Collateral Account, shall immediately and without any need for any further action on the part of any of the Credit Parties, any Lender or the Agent, become subject to the Lien set forth in this Section 9.2, be deemed Collateral for all purposes hereof and be subject to the provisions of this Agreement.

SECTION 9.3. Remedies. At any time during the continuation of an Event of Default, the Agent may sell any documents, instruments and securities held in the Cash Collateral Account and may immediately apply the proceeds thereof and any other cash held in the Cash Collateral Account in accordance with Section 8.7.

## 10. GUARANTY

SECTION 10.1. Guaranty. (a) Each of the Guarantors, jointly and severally, unconditionally and irrevocably guarantees to the Agent, the Issuing Bank and the Lenders the due and punctual payment and performance of the Obligations (including interest accruing on and after the filing of any petition in bankruptcy or of reorganization of the obligor whether or not post filing interest is allowed in such proceeding). Each of the Guarantors further agrees that the Obligations may be increased, extended or renewed, in whole or in part, without notice or

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further assent from it (except as may be otherwise required herein), and it will remain bound under this Article 10 notwithstanding any extension or renewal of any Obligation.

(b) Each Guarantor waives presentation to, demand for payment from and protest to, as the case may be, any Credit Party or any other guarantor of any of the Obligations, and also waives notice of protest for nonpayment, notice of acceleration and notice of intent to accelerate. The obligations of each Guarantor hereunder shall not be affected by (i) the failure of the Agent, the Issuing Bank or the Lenders to assert any claim or demand or to enforce any right or remedy against the Borrower or any Guarantor or any other guarantor under the provisions of this Credit Agreement or any other agreement or otherwise; (ii) any extension or renewal of any provision hereof or thereof; (iii) the failure of the Agent, the Issuing Bank or the Lenders to obtain the consent of such Guarantor with respect to any rescission, waiver, compromise, acceleration, amendment or modification of any of the terms or provisions of this Credit Agreement, the Notes or any other agreement; (iv) the release, exchange, waiver or foreclosure of any security held by the Agent for the Obligations or any of them; (v) the failure of the Agent, the Issuing Bank or the Lenders to exercise any right or remedy against any other Guarantor or any other guarantor of the Obligations; (vi) any bankruptcy, reorganization, liquidation, dissolution or receivership proceeding or case by or against the Borrower or other Credit Party, any change in the corporate existence, structure, ownership or control of any such Guarantor or any other Credit Party (including any of the foregoing arising from any merger, consolidation, amalgamation, reorganization or similar transaction); or (vii) the release or substitution of any Guarantor or any other guarantor of the Obligations.

(c) Each Guarantor further agrees that this Article 10 is a continuing guaranty, shall secure the Obligations and any ultimate balance thereof, notwithstanding that the Borrower or others may from time to time satisfy the Obligations in whole or in part and thereafter incur further Obligations, and constitutes a guaranty of performance and of payment when due and not just of collection, and waives any right to require that any resort be had by the Agent, the Issuing Bank or any Lender to any security held for payment of the Obligations or to any balance of any deposit, account or credit on the books of the Agent, the Issuing Bank or any Lender in favor of the Borrower or any Guarantor or to any other Person.

(d) Each Guarantor hereby expressly assumes all responsibilities to remain informed of the financial condition of the Borrower, the Guarantors and any other guarantors of the Obligations and any circumstances affecting the Collateral or the Pledged Securities or the ability of the Borrower to perform under this Credit Agreement.

(e) Each Guarantor's obligations under the Article 10 shall not be affected by the genuineness, validity, regularity or enforceability of the Obligations, the Notes or any other instrument evidencing any Obligations, or by the existence, validity, enforceability, perfection, or extent of any collateral therefor or by any other circumstance relating to the Obligations which might otherwise constitute a defense to this Article 10. The Agent, the Issuing Bank and the Lenders make no representation or warranty with respect to any such circumstances and have no duty or responsibility whatsoever to any Guarantor in respect to the management and maintenance of the Obligations or any collateral security for the Obligations.

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SECTION 10.2. No Impairment of Guaranty, etc. The obligations of each Guarantor under this Article 10 shall not be subject to any reduction, limitation, impairment or termination for any reason (except payment and performance in full of the Obligations), including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or set-off, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Guarantor under this Article 10 shall not be discharged or impaired or otherwise affected by the failure of the Agent, the Issuing Bank or any Lender to assert any claim or demand or to enforce any remedy under this Credit Agreement or any other agreement, by any waiver or modification of any provision hereof or thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of such Guarantor or would otherwise operate as a discharge of such Guarantor as a matter of law, unless and until the Obligations are paid in full, the Commitments have terminated and each outstanding Letter of Credit has expired or otherwise been terminated.

SECTION 10.3. Continuation and Reinstatement, etc. Each Guarantor further agrees that its guaranty under this Article 10 shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by the Agent, the Issuing Bank or the Lenders upon the bankruptcy or reorganization of the Borrower or a Guarantor, or otherwise. In furtherance of the provisions of this Article 10, and not in limitation of any other right which the Agent, the Issuing Bank or the Lenders may have at law or in equity against the Borrower, a Guarantor or any other Person by virtue hereof, upon failure of the Borrower to pay any Obligation when and as the same shall become due, whether at maturity, by acceleration, after notice or otherwise, each Guarantor hereby promises to and will, upon receipt of written demand by the Agent on behalf of itself, the Issuing Bank and/or the Lenders, forthwith pay or cause to be paid to the Agent for the benefit of itself, the Issuing Bank and/or the Lenders (as applicable) in cash an amount equal to the unpaid amount of all the Obligations with interest thereon at a rate of interest equal to the rate specified in Section 2.9(a) hereof, and thereupon the Agent shall assign such Obligation, together with all security interests, if any, then held by the Agent in respect of such Obligation, to the Guarantors making such payment; such assignment to be subordinate and junior to the rights of the Agent on behalf of itself, the Issuing Bank and the Lenders with regard to amounts payable by the Borrower in connection with the remaining unpaid Obligations and to be pro tanto to the extent to which the Obligation in question was discharged by the Guarantor or Guarantors making such payments.

(a) All rights of a Guarantor against the Borrower, arising as a result of the payment by such Guarantor of any sums to the Agent for the benefit of the Agent, the Issuing Bank and/or the Lenders or directly to the Issuing Bank or the Lenders hereunder by way of right of subrogation or otherwise, shall in all respects be subordinated and junior in right of payment to, and shall not be exercised by such Guarantor until and unless, the prior final and indefeasible payment in full of all the Obligations. If any amount shall be paid to such Guarantor for the account of the Borrower, such amount shall be held in trust for the benefit of the Agent segregated from such Guarantor's own assets and shall forthwith be paid to the Agent on behalf

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of itself, the Issuing Bank and/or the Lenders to be credited and applied to the Obligations, whether matured or unmatured.

SECTION 10.4. Limitation on Guaranteed Amount etc. (a) Notwithstanding any other provision of this Article 10, the amount guaranteed by each Guarantor under this Article 10 shall be limited to the extent, if any, required so that its obligations under this Article 10 shall not be subject to avoidance under Section 548 of the Bankruptcy Code or to being set aside or annulled under any Applicable Law relating to fraud on creditors. In determining the limitations, if any, on the amount of any Guarantor's obligations under this Article 10 pursuant to the preceding sentence, it is the intention of the parties hereto that any rights of subrogation or contribution which such Guarantor may have under this Article 10, any other agreement or Applicable Law shall be taken into account.

## 11. PLEDGE

SECTION 11.1. Pledge. Each Pledgor, as security for the due and punctual payment of the Obligations (including interest accruing on and after the filing of any petition in bankruptcy or of reorganization of the Borrower whether or not post filing interest is allowed in such proceeding) in the case of the Borrower and as security for its obligations under Article 10 hereof in the case of a Pledgor which is a Guarantor, hereby pledges, hypothecates, assigns, transfers, sets over and delivers unto the Agent for the benefit of itself, the Issuing Bank and the Lenders, a security interest in all Pledged Collateral now owned or hereafter acquired by it. On the Closing Date, the Pledgors shall deliver to the Agent the definitive instruments (if any) representing all Pledged Securities, accompanied by undated stock powers, duly endorsed or executed in blank by the appropriate Pledgor, and such other instruments or documents as the Agent or its counsel shall reasonably request.

SECTION 11.2. Registration in Nominee Name; Denominations. The Agent shall have the right (in its sole and absolute discretion) to hold the certificates representing any Pledged Securities (a) in its own name (on behalf of the Agent, the Issuing Bank and the Lenders) or in the name of its nominee or (b) in the name of the appropriate Pledgor, endorsed or assigned in blank or in favor of the Agent. Upon the occurrence and continuance of an Event of Default, the Agent shall have the right to exchange the certificates representing any of the Pledged Securities for certificates of smaller or larger denominations for any purpose consistent with this Credit Agreement.

SECTION 11.3. Covenant. Each Pledgor covenants that as a stockholder of each of its respective Subsidiaries it will not take any action to allow any additional shares of common stock, preferred stock or other equity securities of any of its respective Subsidiaries or any securities convertible or exchangeable into common or preferred stock of such Subsidiaries to be issued, or grant any options or warrants, unless such securities are pledged to the Agent (for the benefit of itself, the Issuing Bank and the Lenders) as security for the Obligations and such Pledgor's obligations (if any) under Article 10 hereof.

SECTION 11.4. Voting Rights; Dividends; etc. (a) The appropriate Pledgor shall be entitled to exercise any and all voting and/or consensual rights and powers accruing to an owner of the Pledged Securities being pledged by it hereunder or any part thereof for any purpose not

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inconsistent with the terms hereof, at all times, except as expressly provided in paragraph (c) below.

(b) All dividends or distributions of any kind whatsoever (other than cash dividends or distributions paid while no Event of Default is continuing) received by a Pledgor, whether resulting from a subdivision, combination, or reclassification of the outstanding capital stock of the issuer or received in exchange for Pledged Securities or any part thereof or as a result of any merger, consolidation, acquisition, or other exchange of assets to which the issuer may be a party, or otherwise, shall be and become part of the Pledged Securities pledged hereunder and shall immediately be delivered to the Agent to be held subject to the terms hereof. All dividends and distributions which are received contrary to the provisions of this subsection (b) shall be received in trust for the benefit of the Agent, the Issuing Bank and the Lenders, segregated from such Pledgor's own assets, and shall be delivered to the Agent.

(c) Upon the occurrence and during the continuance of an Event of Default and notice from the Agent of the transfer of such rights to the Agent, all rights of a Pledgor (i) to exercise the voting and/or consensual rights and powers which it is entitled to exercise pursuant to this Section and (ii) to receive and retain cash dividends and distributions shall cease, and all such rights shall thereupon become vested in the Agent, which shall have the sole and exclusive right and authority to exercise such voting and/or consensual rights and receive such cash dividends and distributions until such time as all Events of Default have been cured.

**SECTION 11.5. Remedies Upon Default.** If an Event of Default shall have occurred and be continuing, the Agent, on behalf of itself, the Issuing Bank and the Lenders, may sell the Pledged Securities, or any part thereof, at public or private sale or at any broker's board or on any securities exchange, for cash, upon credit or for future delivery as the Agent shall deem appropriate subject to the terms hereof or as otherwise provided in the UCC. The Agent shall be authorized at any such sale (if it deems it advisable to do so) to restrict to the full extent permitted by Applicable Law the prospective bidders or purchasers to Persons who will represent and agree that they are purchasing the Pledged Securities for their own account for investment and not with a view to the distribution or sale thereof, and upon consummation of any such sale, the Agent shall have the right to assign, transfer, and deliver to the purchaser or purchasers thereof the Pledged Securities so sold. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of any Pledgor. The Agent shall give the Pledgors ten (10) days' written notice of any such public or private sale, or sale at any broker's board or on any such securities exchange, or of any other disposition of the Pledged Securities. Such notice, in the case of public sale, shall state the time and place for such sale and, in the case of sale at a broker's board or on a securities exchange, shall state the board or exchange at which such sale is to be made and the day on which the Pledged Securities, or portion thereof, will first be offered for sale at such board or exchange. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Agent may fix and shall state in the notice of such sale. At any such sale, the Pledged Securities, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Agent may (in its sole and absolute discretion) determine. The Agent shall not be obligated to make any sale of the Pledged Securities if it shall determine not to do so, regardless of the fact that notice of sale of the Pledged Securities may have been given. The Agent may, without notice or publication, adjourn any public or private sale or cause the same to be

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adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case the sale of all or any part of the Pledged Securities is made on credit or for future delivery, the Pledged Securities so sold shall be retained by the Agent until the sale price is paid by the purchaser or purchasers thereof, but the Agent shall not incur any liability in case any such purchaser or purchasers shall fail to take up and pay for the Pledged Securities so sold and, in case of any such failure, such Pledged Securities may be sold again upon like notice. At any sale or sales made pursuant to this Section 11.5, the Agent (on behalf of itself, the Issuing Bank and/or the Lenders) may bid for or purchase, free from any claim or right of whatever kind, including any equity of redemption, of the Pledgors, any such demand, notice, claim, right or equity being hereby expressly waived and released, any or all of the Pledged Securities offered for sale, and may make any payment on the account thereof by using any claim for moneys then due and payable to the Agent, the Issuing Bank (to the extent it consents) or any consenting Lender by any Credit Party as a credit against the purchase price; and the Agent, upon compliance with the terms of sale, may hold, retain and dispose of the Pledged Securities without further accountability therefor to any Pledgor or any third party (other than the Issuing Bank and/or the Lenders). The Agent shall in any such sale make no representations or warranties with respect to the Pledged Securities or any part thereof and shall not be chargeable with any of the obligations or liabilities of the Pledgors with respect thereto. Each Pledgor hereby agrees that (i) it will indemnify and hold the Agent, the Issuing Bank and the Lenders harmless from and against any and all claims with respect to the Pledged Securities asserted before the taking of actual possession or control of the Pledged Securities by the Agent pursuant to this Credit Agreement, or arising out of any act of, or omission to act on the part of, any Person prior to such taking of actual possession or control by the Agent (whether asserted before or after such taking of possession or control), or arising out of any act on the part of any Pledgor, its agents or Affiliates before or after the commencement of such actual possession or control by the Agent and (ii) the Agent, the Issuing Bank and the Lenders shall have no liability or obligation arising out of any such claim. As an alternative to exercising the power of sale herein conferred upon it, the Agent may proceed by a suit or suits at law or in equity to foreclose upon the Collateral and Pledged Securities under this Credit Agreement and to sell the Pledged Securities, or any portion thereof, pursuant to a judgment or decree of a court or courts having competent jurisdiction.

**SECTION 11.6. Application of Proceeds of Sale and Cash.** The proceeds of sale of the Pledged Securities sold pursuant to Section 11.5 hereof shall be applied by the Agent on behalf of itself, the Issuing Bank and the Lenders as follows:

- (i) to the payment of all reasonable out-of-pocket costs and expenses paid or incurred by the Agent in connection with such sale, including, but not limited to, all court costs and the reasonable fees and expenses of counsel for the Agent in connection therewith, and the payment of all reasonable out-of-pocket costs and expenses paid or incurred by the Agent in enforcing this Credit Agreement, in realizing or protecting any Collateral and in enforcing or collecting any Obligations or any Guaranty thereof, including, without limitation, court costs and the reasonable attorney's fees and expenses incurred by the Agent in connection therewith;
  - (ii) to satisfy or provide cash collateral for all Obligations relating to the Letters of Credit; and
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(iii) to the indefeasible payment in full of the Obligations in accordance with Section 12.2(b) hereof.

Any amounts remaining after such indefeasible payment in full shall be remitted to the appropriate Pledgor, or as a court of competent jurisdiction may otherwise direct.

SECTION 11.7. Securities Act, etc. In view of the position of each Pledgor in relation to the Pledged Securities pledged by it, or because of other present or future circumstances, a question may arise under the Securities Act of 1933, as amended, as now or hereafter in effect, or any similar statute hereafter enacted analogous in purpose or effect (such Act and any such similar statute as from time to time in effect being hereinafter called the "Federal Securities Laws"), with respect to any disposition of the Pledged Securities permitted hereunder. Each Pledgor understands that compliance with the Federal Securities Laws may very strictly limit the course of conduct of the Agent if the Agent were to attempt to dispose of all or any part of the Pledged Securities, and may also limit the extent to which or the manner in which any subsequent transferee of any Pledged Securities may dispose of the same. Similarly, there may be other legal restrictions or limitations affecting the Agent in any attempt to dispose of all or any part of the Pledged Securities under applicable Blue Sky or other state securities laws, or similar laws analogous in purpose or effect. Under Applicable Law, in the absence of an agreement to the contrary, the Agent may perhaps be held to have certain general duties and obligations to a Pledgor to make some effort towards obtaining a fair price even though the Obligations may be discharged or reduced by the proceeds of a sale at a lesser price. Each Pledgor waives to the fullest extent permitted by Applicable Law any such general duty or obligation to it, and the Pledgors and/or the Credit Parties will not attempt to hold the Agent responsible for selling all or any part of the Pledged Securities at an inadequate price, even if the Agent shall accept the first offer received or shall not approach more than one possible purchaser. Without limiting the generality of the foregoing, the provisions of this Section 11.7 would apply if, for example, the Agent were to place all or any part of the Pledged Securities for private placement by an investment banking firm, or if such investment banking firm purchased all or any part of the Pledged Securities for its own account, or if the Agent placed all or any part of the Pledged Securities privately with a purchaser or purchasers.

SECTION 11.8. Continuation and Reinstatement. Each Pledgor further agrees that its pledge hereunder shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of any Obligation is rescinded or must otherwise be restored by the Agent, the Issuing Bank or the Lenders upon the bankruptcy or reorganization of any Pledgor or otherwise.

SECTION 11.9. Termination. The pledge referenced herein shall terminate when all Obligations shall have been indefeasibly fully paid and performed and the Commitments shall have terminated, and all Letters of Credit shall have expired or been terminated or canceled, at which time the Agent shall assign and deliver to the appropriate Pledgor, or to such Person or Persons as such Pledgor shall designate, against receipt, such of the Pledged Securities (if any) as shall not have been sold or otherwise applied by the Agent pursuant to the terms hereof and shall still be held by it hereunder, together with appropriate instruments of reassignment and release. Any such reassignment shall be free and clear of all Liens, arising by, under or through the

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Agent but shall otherwise be without recourse upon or warranty by the Agent and at the expense of the Pledgors.

## 12. THE AGENT AND THE ISSUING BANK

SECTION 12.1. Administration by Agent. (a) The general administration of the Fundamental Documents and any other documents contemplated by this Agreement shall be by the Agent or its designees. Each of the Lenders hereby irrevocably authorizes the Agent, at its discretion, to take or refrain from taking such actions as agent on its behalf and to exercise or refrain from exercising such powers under the Fundamental Documents, the Notes and any other documents contemplated by this Credit Agreement as are delegated by the terms hereof or thereof, as appropriate, together with all powers reasonably incidental thereto. The Agent shall have no duties or responsibilities except as set forth in the Fundamental Documents.

(b) The Lenders hereby authorize the Agent (in its sole discretion):

(i) in connection with the sale or other disposition of any asset included in the Collateral or the capital stock of any Guarantor, in accordance with the terms of this Agreement, to release a Lien granted to it (for the benefit of itself, the Issuing Bank and the Lenders) on such asset or capital stock and/or release such Guarantor from its obligations hereunder;

(ii) to determine that the cost to a Credit Party is disproportionate to the benefit to be realized by the Lenders by perfecting a Lien in a given asset or group of assets included in the Collateral and that such Credit Party should not be required to perfect such Lien in favor of the Agent (for the benefit itself, the Issuing Bank and of the Lenders);

(iii) to appoint subagents or Lenders to be the holder(s) of record of a Lien to be granted to the Agent (for the benefit of itself, the Issuing Bank and the Lenders) or to hold on behalf of the Agent such collateral or instruments relating thereto;

(iv) to grant a right of quiet enjoyment to licensees of Product other than pursuant to Platform Agreements and to confirm such grant in writing;

(v) to enter into intercreditor and/or subordination agreements on terms acceptable to the Agent with (A) the unions and/or the guilds with respect to the security interests in favor of such unions and/or guilds required pursuant to the terms of any collective bargaining agreement or (B) any licensee or licensor having any rights to any item of Product or (C) Persons providing any services in connection with any item of Product;

(vi) to enter into and perform its obligations under the other Fundamental Documents;

(vii) to accept commitments from one or more Persons for the remaining \$15,000,000 of the facility not committed to as of the date hereof by (A) obtaining an executed counterpart of this Agreement from each such Person, (B) amending Schedule 1 hereto to add each such Person's name, Term Loan Commitment and Revolving Credit Commitment and circulating the amended Schedule 1 to the Lenders and the Borrower and (C) recording in

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the Register the name and address of each such Person, its Term Loan Commitment and Revolving Loan Commitment, and the principal amount of the Loans owing to it, whereupon (x) the Borrower shall execute and deliver to the Agent (i) a Term Note in the amount of such Person's Term Loan Commitment and (ii) a Revolving Credit Note in the amount of such Person's Revolving Credit Commitment and (y) each such Person shall be a party hereto, have the rights and obligations of a Lender hereunder and under the other Fundamental Documents and shall be bound by the provisions hereof and thereof;

(viii) upon the acceptance of additional commitments pursuant to Section 12.1(b)(vii), to allocate equitably among the Lenders, the Term Loans and the Revolving Credit Loans so as to achieve pro rata status;

(ix) to execute and deliver reduction certificates from time to time under the Hallmark Cards Letter of Credit in connection with (and in the amount of) (x) any reduction in the commitments under the Hallmark Subordination and Support Agreement permitted pursuant to Section 6.5 hereof or (y) advances made under the Hallmark Subordination and Support Agreement (other than with the proceeds of drawings made under the Hallmark Cards Letter of Credit);

(x) [Intentionally omitted]

(xi) [Intentionally omitted],

(xii) to approve the final terms of the Foreign Asset Sale and the related documentation, and to execute the related collateral release documents in connection with the Foreign Asset Sale,

(xiii) to accept a replacement Hallmark L/C in substantially the form of Exhibit R-1 in replacement for the existing Hallmark L/C in the form of Exhibit R, and to surrender the existing Hallmark L/C in connection therewith,

(xiv) to accept a revised Hallmark L/C in the face amount of \$90,000,000 in connection with the effectiveness of Amendment No. 14 dated as of March 10, 2008 to the Credit Agreement,

(xv) to enter into an amendment and restatement of Hallmark Cards Subordination and Support Agreement in connection with Amendment No. 13 in the form attached as an exhibit to Amendment No. 13,

(xvi) to, in connection with the effectiveness of Amendment No. 15, (A) accept the cancellation of the Hallmark L/C and (B) and accept the Hallmark Cards Facility Guarantee and enforce its rights under the Hallmark Cards Facility Guarantee, and

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(xvii) to negotiate, enter into and exercise its rights under the Recapitalized Debt Intercreditor Agreement in the form attached hereto as Exhibit T.

SECTION 12.2. Advances and Payments. (a) On the date of each Loan, (x) the Agent shall be authorized (but not obligated) to advance, for the account of each of the Lenders, the amount of the Loan to be made by it in accordance with its Percentage hereunder. Each of the Lenders hereby authorizes and requests the Agent to advance for its account, pursuant to the terms hereof, the amount of the Loan to be made by it, and each of the Lenders agrees forthwith to reimburse the Agent, in immediately available funds for the amount so advanced on its behalf by the Agent. If any such reimbursement is not made in immediately available funds on the same day on which the Agent shall have made any such amount available on behalf of any Lender, such Lender shall pay interest to the Agent, at a rate per annum equal to the Agent's cost of obtaining overnight funds in the New York Federal Funds Market for the first three days following the time when the Lender fails to make the required reimbursement, and thereafter at a rate per annum equal to the Alternate Base Rate plus the Applicable Margin for Alternate Base Rate Loans plus the default rate applicable to Alternate Base Rate Loans as set forth in Section 2.9 hereof. If and to the extent that any such reimbursement shall not have been made to the Agent, the Borrower agrees to repay to the Agent forthwith on demand a corresponding amount with interest thereon for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, in the case of an Alternate Base Rate Loan, at the Alternate Base Rate plus the Applicable Margin for Alternate Base Rate Loans plus the default rate applicable to Alternate Base Rate Loans as set forth in Section 2.9 hereof and in the case of a Eurodollar Loan, at the LIBO Rate plus the Applicable Margin for Eurodollar Loans plus the default rate applicable to Eurodollar Loans as set forth in Section 2.9 hereof.

(b) As between the Agent and the Lenders, any amounts received by the Agent in connection with the Fundamental Documents, the application of which is not otherwise provided for, shall be applied, first, to pay the accrued but unpaid Commitment Fees in accordance with each Lender's Percentage, second, to pay accrued but unpaid interest on the Loans in accordance with the amount of outstanding Loans owed to each Lender, third, to pay the principal balance outstanding on the Loans (with amounts payable on the principal balance outstanding on the Loans in accordance with the amount of outstanding Loans owed to each Lender), and amounts then due in respect of unreimbursed draws under the Letter of Credit, fourth, to pay amounts outstanding under Currency Agreements and Interest Rate Protection Agreements, and fifth, to pay any other amounts then due under this Credit Agreement. All amounts to be paid to any Lender by the Agent shall be credited to that Lender, after collection by the Agent, in immediately available funds either by wire transfer or deposit in such Lender's correspondent account with the Agent or as such Lender and the Agent shall from time to time agree.

SECTION 12.3. Sharing of Setoffs, Cash Collateral and Sharing Events. Each of the Lenders agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against any Credit Party (including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim and received by such Lender under any applicable bankruptcy, insolvency or other similar law) or otherwise, obtain payment in respect of its Obligations as a result of which the unpaid portion of its Obligations is proportionately less than the unpaid

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portion of Obligations of any of the other Lenders (a) it shall promptly purchase at par (and shall be deemed to have thereupon purchased) from such other Lenders a participation in the Obligations of such other Lenders, so that the aggregate unpaid principal amount of each of the Lender's Obligations and its participation in Obligations of the other Lenders shall be in the same proportion to the aggregate unpaid amount of all remaining Obligations as the amount of its Obligations prior to the obtaining of such payment was to the amount of all Obligations prior to the obtaining of such payment and (b) such other adjustments shall be made from time to time as shall be equitable to ensure that the Lenders share such payment pro rata. If all or any portion of such excess payment is thereafter recovered from the Lender which originally received such excess payment, such purchase (or portion thereof) shall be canceled and the purchase price restored to the extent of such recovery. Each Credit Party expressly consents to the foregoing arrangements and agrees that any Lender or Lenders (and any Person holding (or deemed to be holding) a participation in) a Loan, Note, or Letter of Credit may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by such Credit Party to such Person(s) as fully as if such Person(s) held a Note and was the original obligee thereon or was the issuer of the Letter of Credit in the amount of such participation.

SECTION 12.4. Notice to the Lenders. Upon receipt by the Agent or the Issuing Bank from any of the Credit Parties of any communication calling for an action on the part of the Lenders, or upon notice to the Agent of any Event of Default, the Agent or the Issuing Bank will in turn immediately inform the other Lenders in writing (which shall include facsimile communications) of the nature of such communication or of the Event of Default, as the case may be.

SECTION 12.5. Liability of the Agent. (a) The Agent or the Issuing Bank, when acting on behalf of the Lenders, may execute any of its duties under this Credit Agreement or the other Fundamental Documents by or through its officers, agents, or employees and neither the Agent, the Issuing Bank nor their respective officers, agents or employees shall be liable to the Lenders or any of them for any action taken or omitted to be taken in good faith, nor be responsible to the Lenders or to any of them for the consequences of any oversight or error of judgment, or for any loss, unless the same shall happen through its gross negligence or willful misconduct. The Agent, the Issuing Bank and their respective directors, officers, agents, and employees shall in no event be liable to the Lenders or to any of them for any action taken or omitted to be taken by it pursuant to instructions received by it from the Required Lenders (or such other number of Lenders as is expressly required by any Fundamental Document) or in reliance upon the advice of counsel selected by it with reasonable care. Without limiting the foregoing, neither the Agent, the Issuing Bank, nor any of their respective directors, officers, employees, or agents shall be responsible to any of the Lenders for the due execution, validity, genuineness, effectiveness, sufficiency, or enforceability of, or for any statement, warranty, or representation in, or for the perfection of any security interest contemplated by, this Credit Agreement, any other Fundamental Document or any related agreement, document or order, or for freedom of any of the Collateral or any of the Pledged Securities from prior Liens or security interests, or shall be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower or any other Credit Party of any of the terms, conditions, covenants, or agreements of this Credit Agreement, any other Fundamental Document, or any related agreement or document.

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(b) None of the Agent (as agent for the Lenders), the Issuing Bank or any of their respective directors, officers, employees, or agents shall have any responsibility to the Borrower or any other Credit Party on account of the failure or delay in performance or breach by any of the Lenders of any of such Lender's obligations under this Credit Agreement, the other Fundamental Documents or any related agreement or document or in connection herewith or therewith. No Lender nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower or any other Credit Party on account of the failure or delay in performance or breach by any other Lender of such other Lender's obligations under this Credit Agreement, the other Fundamental Documents or any related agreement or document or in connection herewith or therewith.

(c) The Agent as agent for the Lenders hereunder and the Issuing Bank in such capacity, shall be entitled to rely on any communication, instrument, or document believed by it to be genuine or correct and to have been signed or sent by a Person or Persons believed by it to be the proper Person or Persons, and it shall be entitled to rely on advice of legal counsel, independent public accountants, and other professional advisers and experts selected by it.

**SECTION 12.6. Reimbursement and Indemnification.** Each of the Lenders agrees (i) to reimburse the Agent for such Lender's Pro Rata Share of any expenses and fees incurred for the benefit of the Lenders under the Fundamental Documents, including, without limitation, counsel fees and compensation of agents and employees paid for services rendered on behalf of the Lenders, and any other expense incurred in connection with the operations or enforcement thereof not reimbursed by or on behalf of the Borrower, (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees, or agents, on demand, in accordance with such Lender's Pro Rata Share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against, it or any of them in any way relating to or arising out of the Fundamental Documents or any related agreement or document, or any action taken or omitted by it or any of them under the Fundamental Documents or any related agreement or document, to the extent not reimbursed by or on behalf of the Borrower or any other Credit Party (except such as shall result from its or their gross negligence or willful misconduct), and (iii) to indemnify and hold harmless the Issuing Bank and any of its directors, officers, employees, or agents, on demand, in the amount of its Pro Rata Share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against it or any of them in any way relating to or arising out of the issuance of any Letters of Credit or the failure to issue Letters of Credit if such failure or issuance was at the direction of the Required Lenders (except as shall result from the gross negligence or willful misconduct of the Person to be reimbursed, indemnified or held harmless, as applicable). To the extent indemnification payments made by the Lenders pursuant to this Section 12.6 are subsequently recovered by the Agent from a Credit Party, the Agent will promptly refund such previously paid indemnity payments to the Lenders.

**SECTION 12.7. Rights of Agent and Issuing Bank.** It is understood and agreed that each of the Agent and the Issuing Bank shall have the same duties, rights and powers as a Lender hereunder (including the right to give such instructions) as any of the other Lenders and may exercise such rights and powers, as well as its rights and powers under other agreements and

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instruments to which it is or may be party, and engage in other transactions with any Credit Party or Affiliate thereof, as though it were not the Agent of the Lenders under this Credit Agreement and the other Fundamental Documents or the Issuing Bank.

SECTION 12.8. Independent Investigation by Lenders. Each of the Lenders acknowledges that it has decided to enter into this Credit Agreement and the other Fundamental Documents and to make the Loans and participate in the Letters of Credit hereunder based on its own analysis of the transactions contemplated hereby and of the creditworthiness of the Credit Parties and agrees that neither the Agent nor the Issuing Bank shall bear any responsibility therefor.

SECTION 12.9. Agreement of Required Lenders. Upon any occasion requiring or permitting an approval, consent, waiver, election or other action on the part of the Required Lenders, action shall be taken by the Agent for and on behalf of, or for the benefit of, all Lenders upon the direction of the Required Lenders and any such action shall be binding on all Lenders. No amendment, modification, consent or waiver shall be effective except in accordance with the provisions of Section 13.11 hereof.

SECTION 12.10. Notice of Transfer. The Agent and the Issuing Bank may deem and treat any Lender which is a party to this Credit Agreement as the owner of such Lender's respective portions of the Loans and participations in Letters of Credit for all purposes, unless and until a written notice of the assignment or transfer thereof executed by any such Lender shall have been received by the Agent and become effective in accordance with Section 13.3 hereof.

SECTION 12.11. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower, but such resignation shall not become effective until acceptance by a successor agent of its appointment pursuant hereto. Upon any such resignation, the retiring Agent shall promptly appoint a successor agent from among the Lenders which successor shall be experienced and sophisticated in entertainment industry lending, provided that such replacement is reasonably acceptable (as evidenced in writing) to the Required Lenders and the Borrower; provided, however, that such approval by the Borrower shall not be required at any time when a Default or Event of Default is continuing. If no successor agent shall have been so appointed by the retiring Agent and shall have accepted such appointment, within 30 days after the retiring agent's giving of notice of resignation, the Borrower may appoint a successor agent (which successor may be replaced by the Required Lenders; provided that such successor is experienced and sophisticated in entertainment industry lending or media lending and reasonably acceptable to the Borrower), which shall be either a Lender or a commercial bank organized, licensed, carrying on business under the laws of the United States of America or of any State thereof and shall have a combined capital and surplus of at least US\$500,000,000 and shall be experienced and sophisticated in entertainment industry lending. Upon the acceptance of any appointment as Agent hereunder by a successor agent, such successor agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Credit Agreement, the other Fundamental Documents and any other credit documentation. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article 12 and Article 13 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Credit Agreement.

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SECTION 12.12. Successor Issuing Bank. The Issuing Bank may resign at any time by giving prior written notice thereof to the Lenders and the Borrower, but such resignation shall not become effective until acceptance by a successor Issuing Bank of its appointment pursuant hereto. Upon any such resignation, the retiring Issuing Bank shall promptly appoint a successor Issuing Bank from among the Lenders, provided that such replacement is reasonably acceptable (as evidenced in writing) to the Required Lenders and the Borrower and has a credit rating at least as high as that of the Issuing Bank; provided, however, that such approval by the Borrower shall not be required at any time when a Default or Event of Default is continuing. If no successor Issuing Bank shall have been so appointed by the retiring Issuing Bank and shall have accepted such appointment, within 30 days after the retiring Issuing Bank's giving of notice of resignation, the Borrower may appoint a successor Issuing Bank (which successor may be replaced by the Required Lenders; provided that such successor is reasonably acceptable to the Borrower), which shall be either a Lender or a commercial bank organized, licensed, carrying on business under the laws of the United States of America or of any State thereof and shall have a combined capital and surplus of at least US\$500,000,000. Upon the acceptance of any appointment as Issuing Bank hereunder by a successor Issuing Bank, such successor Issuing Bank shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Issuing Bank, and the retiring Issuing Bank shall be discharged from its duties and obligations under this Credit Agreement, the other Fundamental Documents and any other credit documentation, except with respect to Letters of Credit which are outstanding at the time of the resignation unless the successor Issuing Bank replaces the retiring Issuing Bank as the issuing bank on such Letters of Credit. The Borrower and each Lender hereby agree that each will use its commercially reasonable efforts to replace any such outstanding Letters of Credit issued by the retiring Issuing Bank. After any retiring Issuing Bank's resignation hereunder as Issuing Bank, the provisions of this Article 12 and Article 13 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Issuing Bank under this Credit Agreement.

13. MISCELLANEOUS

SECTION 13.1. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered or mailed (or in the case of telegraphic communication, if by telegram, delivered to the telegraph company and, if by telex, graphic scanning or other telegraphic or facsimile communications equipment of the sending party hereto, delivered by such equipment) addressed, if to the Agent, the Issuing Bank or JPMorgan Chase Bank, N.A., to JPMorgan Chase Bank, N.A., 1166 Avenue of the Americas, Floor 17, New York, New York 10036, Attention: Garrett J. Verdone, Senior Vice President, facsimile no.: (212) 899-2893, with a copy to J.P. Morgan Securities, 1800 Century Park East, Suite 400, Los Angeles, California 90067, Attn: P. Clark Hallren, facsimile no.: (310) 788-5628, or if to any Credit Party, to it at Crown Media Holdings, 12700 Ventura Blvd, Studio City, California 91604, Attn.: Charles Stanford, Esq., facsimile no.: (303) 221-3779, with a courtesy copy to Hallmark Cards Incorporated, 2501 McGee, P.O. 419580, Mail Drop #339, Kansas City, Missouri 64108, Attn: Deanne Stedem, facsimile no.: (816) 274-7171, or if to a Lender, to it at its address set forth on the signature page, or such other address as such party may from time to time designate by giving written notice to the other parties hereunder. Any failure of the Agent, the Issuing Bank or a Lender giving notice pursuant to this Section 13.1, to provide a courtesy copy to a party as provided

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herein, shall not affect the validity of such notice. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the fifth Business Day after the date when sent by registered or certified mail, postage prepaid, return receipt requested, if by mail, or when delivered to the telegraph company, charges prepaid, if by telegram, or when receipt is acknowledged, if by any telegraphic or facsimile communications equipment of the sender, in each case addressed to such party as provided in this Section 13.1 or in accordance with the latest unrevoked written direction from such party.

SECTION 13.2. Survival of Agreement, Representations and Warranties, etc. All warranties, representations and covenants made by any of the Credit Parties herein or in any other Fundamental Document or in any certificate or other instrument delivered in connection with this Credit Agreement or any other Fundamental Document shall be considered to have been relied upon by the Agent, the Issuing Bank and the Lenders except for any terminations, amendments, modifications or waivers thereof in accordance with the terms hereof, and shall survive the making of the Loans and the issuance of the Letters of Credit herein contemplated and the issuance and delivery to the Agent of the Notes regardless of any investigation made by the Agent, the Issuing Bank or the Lenders or on their behalf and shall continue in full force and effect so long as any Obligation is outstanding and unpaid and so long as any Letter of Credit remains outstanding and the Commitments have not been terminated. All statements in any such certificate or other instrument shall constitute representations and warranties by the Credit Party hereunder.

SECTION 13.3. Successors and Assigns; Syndications; Loan Sales; Participations. (a) Whenever in this Credit Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party (provided, however, that no Credit Party may assign its rights or obligations hereunder without the prior written consent of the Agent, the Issuing Bank and all the Lenders), and all covenants, promises and agreements by or on behalf of any Credit Party which are contained in this Agreement shall inure to the benefit of the successors and assigns of the Administrative Agent, the Issuing Bank and the Lenders.

(b) Each of the Lenders may (but only with the prior written consent of the Agent and the Issuing Bank, which consent shall not be unreasonably withheld or delayed and with the prior written consent of the Borrower, which consent shall not be unreasonably withheld or delayed and which consent of the Borrower shall not be required for an assignment by a Lender to any Affiliate thereof or when an Event of Default has occurred and is continuing) assign all or a portion of its interests, rights and obligations under this Credit Agreement (including, without limitation, all or a portion of its Commitment and the same portion of all Loans at the time owing to it and the Notes held by it and its obligations and rights with regard to Letters of Credit); provided, however, that (i) each assignment shall be of a constant, and not a varying, percentage of the assigning Lender's interests, rights and obligations under this Credit Agreement, (ii) each assignment shall be in a minimum Commitment amount (or, at any time after the Commitment Termination Date, minimum Loan amount) of at least \$5,000,000 (except that any assignment of the entire remaining portion of a Lender's Commitment or Loan amount shall not be subject to this limitation), (iii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance, together with the assigning Lender's original Note and a processing

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and recordation fee of US\$3,500 to be paid to the Administrative Agent by the assigning Lender or the assignee. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall not (unless otherwise agreed to by the Agent) be earlier than five Business Days after the date of acceptance and recording by the Agent, (x) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and under the other Fundamental Documents and shall be bound by the provisions hereof and (y) the assigning Lender thereunder shall, to the extent provided in such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Credit Agreement except that, notwithstanding such assignment, any rights and remedies available to the Borrower for any breaches by such assigning Lender of its obligations hereunder while a Lender shall be preserved after such assignment and such Lender shall not be relieved of any liability to the Borrower due to any such breach. In the case of an Assignment and Acceptance covering all or the remaining portion of the assigning Lender's rights and obligations under this Credit Agreement, such assigning Lender shall cease to be a party hereto.

(c) Each Lender may at any time make an assignment of its interests, rights and obligations under this Credit Agreement, without the consent of the Agent or the Issuing Bank, to (i) any Affiliate of such Lender or (ii) any other Lender hereunder; provided that after giving effect to such assignment, the assignee's Percentage shall not exceed 20% of the aggregate amount of all Commitments then outstanding hereunder. Any such assignment to any Affiliate of the assigning Lender or any other Lender hereunder shall not be subject to the requirements of Section 13.3(b) that (x) that the amount of the Commitment (or Loans if applicable) of the assigning Lender subject to each assignment be in a minimum principal amount of \$5,000,000 and (y) the payment of a processing and recordation fee and any such assignment to any Affiliate of the assigning Lender shall not release the assigning Lender of its remaining obligations hereunder, if any.

(d) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby and that such interest is free and clear of any adverse claim, the assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit Agreement or any other Fundamental Document or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Fundamental Documents or any other instrument or document furnished pursuant hereto or thereto; (ii) such assignor Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any of the Credit Parties or the performance or observance by any of the Credit Parties of any of their obligations under the Fundamental Documents or any other instrument or document furnished pursuant thereto; (iii) such assignee confirms that it has received a copy of this Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Sections 5.1(a) and 5.1(b) (or if none of such financial statements shall have then been delivered, then copies of the financial statements referred to in Section 3.4 hereof) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee agrees that it will, independently and without reliance upon the assigning Lender,

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the Agent, the Issuing Bank or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement or any other Fundamental Document; (v) such assignee appoints and authorizes the Agent, and the Issuing Bank to take such action as the agent on its behalf and to exercise such powers under this Credit Agreement as are delegated to the Agent or the Issuing Bank by the terms hereof, together with such powers as are reasonably incidental thereto; and (vi) such assignee agrees that it will be bound by the provisions of this Credit Agreement and will perform in accordance with their terms all of the obligations which by the terms of this Credit Agreement are required to be performed by it as a Lender.

(e) The Agent shall maintain at its address at which notices are to be given to it pursuant to Section 13.1 a copy of each Assignment and Acceptance and a register for the recordation of the names and addresses of the Lenders and the Commitments of, and principal amount of the Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Credit Parties, the Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of the Fundamental Documents. The Register shall be available for inspection by any Credit Party or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(f) Subject to the foregoing, upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee together with the assigning Lender's original Notes and the processing and recordation fee, the Agent shall, if such Assignment and Acceptance has been completed and is substantially in the form of Exhibit H hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt written notice thereof to the Borrower. Within five (5) Business Days after receipt of the notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such assignee in an amount equal to the Revolving Credit Commitment and/or Term Loan, as the case may be, assumed by it pursuant to such Assignment and Acceptance and if the assigning Lender has retained a Revolving Credit Commitment and/or Term Loan hereunder, new Notes to the order of the assigning Lender in an amount equal to the Revolving Credit Commitment or Term Loan, as the case may be, retained by it hereunder. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Note and shall otherwise be in substantially the form of Exhibit A-1 or Exhibit A-2, as applicable. In addition the Credit Parties will promptly, at their own expense, execute such amendments to the Fundamental Documents to which each is a party and such additional documents, and take such other actions as the Agent or the assignee Lender may reasonably request in order to give such assignee Lender the full benefit of the Liens contemplated by the Fundamental Documents.

(g) Each of the Lenders may, without the consent of any of the Credit Parties, the Issuing Bank or the Agent or the other Lenders, sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Credit Agreement (including, without limitation, all or a portion of its Commitment and the Loans owing to it and the Note or Notes held by it and its participation in Letters of Credit); provided, however, that (i) any such Lender's obligations under this Credit Agreement shall remain unchanged, (ii) such participant shall not be granted any voting rights or any right to control the vote of such Lender

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under this Credit Agreement, except with respect to proposed changes to interest rates, amount of Commitments, final maturity of any Loan, releases of all or substantially all the Collateral and fees (as applicable to such participant), (iii) any such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iv) the participating banks or other entities shall be entitled to the cost protection provisions contained in Sections 2.11, 2.12, 2.13 and 12.3 hereof but a participant shall not be entitled to receive pursuant to such provisions an amount larger than its share of the amount to which the Lender granting such participation would have been entitled to receive and (v) the Credit Parties, the Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's and its participants' rights and obligations under this Credit Agreement.

(h) A Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 13.3, disclose to the assignee or participant or proposed assignee or participant, any information relating to any of the Credit Parties furnished to the Agent or such Lender by or on behalf of the Borrower; provided that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree, by executing a confidentiality letter, substantially in the form of the confidentiality letter executed by the Lenders in connection with information received by the Lenders relating to this transaction, to preserve the confidentiality of any confidential information relating to any of the Credit Parties received from such Lender.

(i) Any assignment pursuant to paragraph (b) or (c) of this Section 13.3 shall constitute an amendment of the Schedule of Commitments as of the effective date of such assignment.

(j) The Credit Parties consent that any Lender may at any time and from time to time pledge or otherwise grant a security interest in any Loan or in any Note evidencing the Loans (or any part thereof) to any Federal Reserve Bank.

(k) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC") identified as such in writing from time to time by the Granting Lender to the Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of a Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the relevant portion of the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar obligation under the Fundamental Documents (all liability for which shall remain with the Granting Lender). In addition, notwithstanding anything to the contrary contained in this Section 13.3(k), any SPC may (i) with notice to, but without prior written consent of, the Borrower and the Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information

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relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. This Section 13.3(k) may not be amended without the prior written consent of each Granting Lender, all or any of whose Loans are being funded by an SPC at the time of such amendment. For the avoidance of doubt, the Granting Lender shall for all purposes (including, without limitation, the approval of any amendment or waiver of any provision of any of the Fundamental Documents) continue to be the Lender of record hereunder.

(l) Notwithstanding anything to the contrary in this Section 13.3, upon five (5) Business Days written notice to the Agent, Hallmark Cards (or its designee) shall have the right to purchase from each of the Lenders its entire interest in the Total Commitments and the Loans and to assume each of the Lender's obligations under the Credit Agreement (the "Hallmark Purchase") for an amount equal to the total outstanding principal plus the total accrued, unpaid interest plus all other outstanding Obligations to the Lenders plus all Obligations owing to the Agent and the Issuing Bank plus cash collateral for any outstanding L/C Exposure (the "Purchase Price"). The Hallmark Purchase Price is only exercisable with regard to all of the Lenders at the same time. Such Purchase Price shall be paid directly to the Agent for the benefit of the Agent, the Issuing Bank and each Lender in accordance with such Lender's Commitment on the date of the Hallmark Purchase. Provided the Hallmark Guarantee remains in full force and effect and has not been disavowed by Hallmark Cards, during the five (5) day written notice period, the Agent will take no action to foreclose on the Collateral or to demand payment from the Borrower without the consent of Hallmark Cards. The Hallmark Purchase will be treated as if each of the Lenders and Hallmark Cards (or its designee) had signed an Assignment and Acceptance Agreement and neither party shall have any obligation to the other beyond that provided for in the form of Assignment and Acceptance attached hereto as Exhibit H and as soon as practicable thereafter, each of the assigning Lenders will surrender to the Agent the Note or Notes held by it and the Agent will, at the request of Hallmark Cards (or its designee), issue a replacement Note or Notes to Hallmark Cards (or its designee). As soon as practicable subsequent to the payment of the Purchase Price, the Agent shall surrender the Hallmark L/C to Hallmark Cards and Hallmark Cards will designate a successor agent to the Agent as contemplated by Section 12.11 of the Credit Agreement and a successor to the Issuing Bank as contemplated by Section 12.12 of the Credit Agreement. Until such successor Issuing Bank is appointed and assumes the obligations of JPMorgan Chase Bank, N.A., as the existing Issuing Bank, the Borrower shall not be entitled to request that any additional letters of credit be issued on its behalf pursuant to Section 2.4 of the Credit Agreement. Subsequent to the payment of the Purchase Price, each of the assigning Lenders shall have the same rights against the Borrower for continuing indemnification and expense reimbursement as it would have had had it signed an Assignment and Assumption Agreement; and subsequent to its replacement as the Agent and as the Issuing Bank, JPMorgan Chase Bank, N.A. shall have the same continuing claims against the Borrower as it would have had had it resigned and been replaced as the Agent and the Issuing Bank in accordance with the procedures contemplated by Sections 12.11 and 12.12 of the Credit Agreement. Notwithstanding any of the preceding provisions of this Section 13.3(l), at any time prior to the payment of the Purchase Price, the Agent may make a claim under, or otherwise seek to enforce any remedies available to it under the Hallmark Cards Facility Guarantee in accordance with the terms thereof.

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SECTION 13.4. Expenses; Documentary Taxes. Whether or not the transactions hereby contemplated shall be consummated, the Borrower agrees to pay (a) all reasonable out-of-pocket expenses incurred by the Agent or J.P. Morgan Securities Inc. in connection with, or growing out of, the performance of due diligence, the syndication of the credit facility contemplated hereby, the negotiation, preparation, execution, delivery, waiver or modification and administration of this Credit Agreement and any other documentation contemplated hereby, the making of the Loans and the issuance of the Letters of Credit, the Collateral, the Pledged Securities or any Fundamental Document, including, but not limited to, the reasonable out-of-pocket costs and internally allocated charges of audit or field examinations of the Agent in connection with the administration of this Credit Agreement, the verification of financial data and the transactions contemplated hereby, and the reasonable fees and disbursements of Morgan, Lewis & Bockius LLP, counsel for the Agent and the Issuing Bank, and any other counsel that the Agent or the Issuing Bank shall retain, and (b) all reasonable out-of-pocket expenses incurred by the Agent, the Issuing Bank or the Lenders in the enforcement or protection of the rights and remedies of the Agent, the Issuing Bank or the Lenders in connection with this Credit Agreement, the other Fundamental Documents, the Letters of Credit or the Notes, or as a result of any transaction, action or non-action arising from any of the foregoing, including, but not limited to, the reasonable fees and disbursements of any counsel for the Agent, the Issuing Bank or the Lenders. Such payments shall be made on the date this Credit Agreement is executed by the Borrower and thereafter on demand. The Borrower agrees that it shall indemnify the Agent, the Issuing Bank and the Lenders from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Credit Agreement or the Notes or the other Fundamental Documents or the issuance of the Letters of Credit. The obligations of the Borrower under this Section shall survive the termination of this Credit Agreement, the payment of the Loans and the expiration of all Letters of Credit.

SECTION 13.5. Indemnification of the Agent, the Issuing Bank and the Lenders. The Borrower agrees (a) to indemnify and hold harmless the Agent, the Issuing Bank and the Lenders and their respective directors, officers, employees, trustees, agents and affiliates (each, an "Indemnified Party") (to the full extent permitted by Applicable Law) from and against any and all claims, demands, losses, judgments and liabilities (including liabilities for penalties) of whatsoever nature, and (b) to pay to the Indemnified Parties an amount equal to the amount of all costs and expenses, including reasonable legal fees and disbursements, and with regard to both (a) and (b) growing out of or resulting from any litigation, investigation or other proceedings relating to the Collateral, this Credit Agreement, the other Fundamental Documents and the Letters of Credit, the making of the Loans, any attempt to audit, inspect, protect or sell the Collateral, or the administration and enforcement or exercise of any right or remedy granted to the Agent, the Issuing Bank or Lenders hereunder or thereunder but excluding therefrom all claims, demands, losses, judgments, liabilities, costs and expenses arising out of or resulting from (i) in the case of any Indemnified Party, the gross negligence or willful misconduct of such Indemnified Party and (ii) claims asserted or litigation commenced against such Indemnified Party by a Credit Party in which the Credit Party is the prevailing party. The foregoing indemnity agreement includes any reasonable costs incurred by any Indemnified Party in connection with any action or proceeding which may be instituted in respect of the foregoing by any Indemnified Party, or by any other Person either against any Indemnified Party or in connection with which any officer, director, agent or employee of any Indemnified Party is

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called as a witness or deponent, including, but not limited to, the reasonable fees and disbursements of Morgan, Lewis & Bockius LLP, counsel to the Agent and the Issuing Bank, and any out-of-pocket costs incurred by any Indemnified Party in appearing as a witness or in otherwise complying with legal process served upon them. Except as otherwise required by Applicable Law which may not be waived, the Agent, the Issuing Bank and the Lenders shall not be liable to any Credit Party for any matter or thing in connection with this Credit Agreement other than their express obligations hereunder, including obligations to make Loans and account for moneys actually received by them in accordance with the terms hereof.

Whenever the provisions of this Credit Agreement or any other Fundamental Document provide that, if any Credit Party shall fail to do any act or thing which it has covenanted to do hereunder, the Agent may (but shall not be obligated to) do the same or cause it to be done or remedy any such breach and if the Agent does the same or causes it to be done, there shall be added to the Obligations hereunder the cost or expense incurred by the Agent in so doing, and any and all amounts expended by the Agent in taking any such action shall be repayable to it upon its demand therefor and shall for advances made by the Agent, bear interest at 2% in excess of the sum of the Alternate Base Rate plus the Applicable Margin, from time to time in effect from the date advanced to the date of repayment.

All indemnities contained in this Section 13.5 shall survive the expiration or earlier termination of this Credit Agreement and shall inure to the benefit of any Person who was a Lender notwithstanding such Person's assignment of all its Loans and Commitments as to any actions taken or omitted to be taken by it while it was a Lender.

SECTION 13.6. CHOICE OF LAW. THIS CREDIT AGREEMENT AND THE NOTES SHALL IN ALL RESPECTS BE CONSTRUED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAWS OF THE STATE OF NEW YORK WHICH ARE APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE AND, IN THE CASE OF PROVISIONS RELATING TO INTEREST RATES, ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA. EACH LETTER OF CREDIT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OR RULES DESIGNATED IN SUCH LETTER OF CREDIT OR IF NO SUCH LAWS OR RULES ARE DESIGNATED, THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500 AS ADOPTED OR AMENDED FROM TIME TO TIME (THE "UNIFORM CUSTOMS") AND, AS TO MATTERS NOT GOVERNED BY THE UNIFORM CUSTOMS, THE LAWS OF THE STATE OF NEW YORK.

SECTION 13.7. WAIVER OF JURY TRIAL. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW WHICH CANNOT BE WAIVED, EACH CREDIT PARTY HEREBY WAIVES, AND COVENANTS THAT IT WILL NOT ASSERT (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE), ANY RIGHT TO TRIAL BY JURY IN ANY FORUM IN RESPECT OF ANY ISSUE, CLAIM, DEMAND, ACTION, OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS CREDIT AGREEMENT, THE SUBJECT MATTER HEREOF, ANY OTHER FUNDAMENTAL DOCUMENT OR THE SUBJECT MATTER THEREOF, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER

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ARISING AND WHETHER IN CONTRACT OR TORT OR OTHERWISE. EACH PARTY HERETO ACKNOWLEDGES THAT IT HAS BEEN INFORMED BY THE OTHER PARTIES HERETO THAT THE PROVISIONS OF THIS SECTION CONSTITUTE A MATERIAL INDUCEMENT UPON WHICH SUCH OTHER PARTIES HAVE RELIED, ARE RELYING AND WILL RELY IN ENTERING INTO THIS CREDIT AGREEMENT AND ANY OTHER FUNDAMENTAL DOCUMENT. ANY PARTY MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION 13.7 WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY TO THE WAIVER OF ITS RIGHTS TO TRIAL BY JURY.

SECTION 13.8. WAIVER WITH RESPECT TO DAMAGES. EACH CREDIT PARTY ACKNOWLEDGES THAT NEITHER THE AGENT, THE ISSUING BANK NOR ANY LENDER HAS ANY FIDUCIARY RELATIONSHIP WITH, OR FIDUCIARY DUTY TO, ANY CREDIT PARTY ARISING OUT OF OR IN CONNECTION WITH THIS CREDIT AGREEMENT OR ANY OTHER FUNDAMENTAL DOCUMENT AND THE RELATIONSHIP BETWEEN THE AGENT, THE ISSUING BANK AND THE LENDERS, ON THE ONE HAND, AND THE CREDIT PARTIES, ON THE OTHER HAND, IN CONNECTION HERewith AND THEREwith IS SOLELY THAT OF DEBTOR AND CREDITOR. TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO CREDIT PARTY SHALL ASSERT, AND EACH CREDIT PARTY HEREBY WAIVES, ANY CLAIMS AGAINST THE AGENT, THE ISSUING BANK, AND THE LENDERS, ON ANY THEORY OF LIABILITY, FOR SPECIAL, INDIRECT, CONSEQUENTIAL OR PUNITIVE DAMAGES (AS OPPOSED TO DIRECT OR ACTUAL DAMAGES) ARISING OUT OF, IN CONNECTION WITH, OR AS A RESULT OF, THIS CREDIT AGREEMENT, ANY OTHER FUNDAMENTAL DOCUMENT, ANY AGREEMENT OR INSTRUMENT CONTEMPLATED HEREBY OR THEREBY, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

SECTION 13.9. No Waiver. No failure on the part of the Agent, or any Lender or the Issuing Bank to exercise, and no delay in exercising, any right, power or remedy hereunder, under the Notes or any other Fundamental Document or with regard to any Letter of Credit shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

SECTION 13.10. Extension of Payment Date. Except as otherwise specifically provided in Article 2 hereof, should any payment or prepayment of principal of or interest on the Notes or any other amount due hereunder, become due and payable on a day other than a Business Day, the due date of such payment or prepayment shall be extended to the next succeeding Business Day and, in the case of a payment or prepayment of principal, interest shall be payable thereon at the rate herein specified during such extension.

SECTION 13.11. Amendments, etc. No modification, amendment or waiver of any provision of this Credit Agreement or any other Fundamental Document, and no consent to any departure by the Borrower or any other Credit Party herefrom or therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders and then such

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waiver or consent shall be effective only in the specific instance and for the purpose for which given; provided, however, that no such modification, waiver, consent or amendment shall, without the written consent of (a) each affected Lender, (i) change any Commitment of such Lender, (ii) reduce the interest payable on such Lender's Loans, (iii) alter the principal amount of such Lender's Loans or any reimbursement obligation in respect of Letters of Credit; (iv) reduce the rate at which the Commitment Fees are payable to such Lender or (v) reduce the fees payable to such Lender with respect to Letters of Credit issued hereunder as set forth in Section 2.4(f) and (g) and (b) all Lenders, (i) amend or modify any provision of this Credit Agreement, which expressly provides for the unanimous consent or approval of the Lenders, (ii) release a substantial portion of the Collateral or any of the Pledged Securities (except as contemplated herein), (iii) extend the Maturity Date or (iv) amend the definition of "Required Lenders," (v) materially amend the definition of "Collateral" (and defined terms used in the definition of Collateral), or (vi) amend or modify this Section 13.11. No such amendment or modification may adversely affect the rights and obligations of the Agent hereunder without its prior written consent or the rights and obligations of the Issuing Bank without its prior written consent. No notice to or demand on the Borrower shall entitle the Borrower to any other or further notice or demand in the same, similar or other circumstances. Each holder of a Note shall be bound by any amendment, modification, waiver or consent authorized as provided herein, whether or not such Note shall have been marked to indicate such amendment, modification, waiver or consent and any consent by any holder of a Note shall bind any Person subsequently acquiring such Note, whether or not such Note is so marked.

SECTION 13.12. Severability. Any provision of this Credit Agreement or of the Notes which is invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without invalidating the remaining provisions hereof or thereof, and any such invalidity, illegality or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 13.13. **SERVICE OF PROCESS. EACH CREDIT PARTY PARTY HERETO (EACH A "SUBMITTING PARTY") HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE STATE COURTS OF THE STATE OF NEW YORK IN NEW YORK COUNTY AND TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSES OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF OR BASED UPON THIS CREDIT AGREEMENT (INCLUDING, BUT NOT LIMITED TO, THE LETTERS OF CREDIT), THE SUBJECT MATTER HEREOF, ANY OTHER FUNDAMENTAL DOCUMENT AND THE SUBJECT MATTER THEREOF. EACH SUBMITTING PARTY TO THE EXTENT PERMITTED BY APPLICABLE LAW (A) HEREBY WAIVES, AND AGREES NOT TO ASSERT, BY WAY OF MOTION, AS A DEFENSE, OR OTHERWISE, IN ANY SUCH SUIT, ACTION OR OTHER PROCEEDING BROUGHT IN THE ABOVE-NAMED COURTS ANY CLAIM THAT IT IS NOT SUBJECT PERSONALLY TO THE JURISDICTION OF SUCH COURTS, THAT ITS PROPERTY IS EXEMPT OR IMMUNE FROM ATTACHMENT OR EXECUTION, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER OR THAT THIS CREDIT AGREEMENT, THE**

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**SUBJECT MATTER HEREOF, THE OTHER FUNDAMENTAL DOCUMENT OR THE SUBJECT MATTER THEREOF (AS APPLICABLE) MAY NOT BE ENFORCED IN OR BY SUCH COURT, (B) HEREBY WAIVES THE RIGHT TO REMOVE ANY SUCH ACTION, SUIT OR PROCEEDING INSTITUTED BY THE AGENT, THE ISSUING BANK OR A LENDER IN STATE COURT TO FEDERAL COURT, OR TO REMAND AN ACTION INSTITUTED IN FEDERAL COURT TO STATE COURT AND (C) HEREBY WAIVES THE RIGHT TO ASSERT IN ANY SUCH ACTION, SUIT OR PROCEEDING ANY OFFSETS OR COUNTERCLAIMS EXCEPT COUNTERCLAIMS THAT ARE COMPULSORY OR OTHERWISE ARISE FROM THE SAME SUBJECT MATTER. EACH SUBMITTING PARTY HEREBY CONSENTS TO SERVICE OF PROCESS BY MAIL AT THE ADDRESS TO WHICH NOTICES ARE TO BE GIVEN TO IT PURSUANT TO SECTION 13.1 HEREOF. EACH SUBMITTING PARTY AGREES THAT ITS SUBMISSION TO JURISDICTION AND CONSENT TO SERVICE OF PROCESS BY MAIL IS MADE FOR THE EXPRESS BENEFIT OF EACH OF THE OTHER PARTIES HERETO. FINAL JUDGMENT AGAINST ANY SUBMITTING PARTY IN ANY SUCH ACTION, SUIT OR PROCEEDING SHALL BE CONCLUSIVE, AND MAY BE ENFORCED IN ANY OTHER JURISDICTION (X) BY SUIT, ACTION OR PROCEEDING ON THE JUDGMENT, A CERTIFIED OR TRUE COPY OF WHICH SHALL BE CONCLUSIVE EVIDENCE OF THE FACT AND OF THE AMOUNT OF INDEBTEDNESS OR LIABILITY OF THE SUBMITTING PARTY THEREIN DESCRIBED, OR (Y) IN ANY OTHER MANNER PROVIDED BY OR PURSUANT TO THE LAWS OF SUCH OTHER JURISDICTION, PROVIDED, HOWEVER, THAT THE AGENT, THE ISSUING BANK OR A LENDER MAY AT ITS OPTION BRING SUIT, OR INSTITUTE OTHER JUDICIAL PROCEEDINGS, AGAINST A SUBMITTING PARTY OR ANY OF ITS ASSETS IN ANY STATE OR FEDERAL COURT OF THE UNITED STATES OR OF ANY COUNTRY OR PLACE WHERE THE SUBMITTING PARTY OR SUCH ASSETS MAY BE FOUND.**

SECTION 13.14. Headings. Section headings used herein and the Table of Contents are for convenience only and are not to affect the construction of or be taken into consideration in interpreting this Credit Agreement.

SECTION 13.15. Execution in Counterparts. This Credit Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same instrument.

SECTION 13.16. Subordination of Intercompany Indebtedness, Receivables and Advances. (a) Each Credit Party hereby agrees that any intercompany Indebtedness or other intercompany receivables or intercompany advances of any other Credit Party, directly or indirectly in favor of such Credit Party of whatever nature at any time outstanding shall be completely subordinate in right of payment to the prior payment in full of the Obligations, and that no payment on any such Indebtedness, receivable or advance shall be made (i) except that intercompany receivables and intercompany advances permitted pursuant to the terms hereof may be repaid and intercompany Indebtedness permitted pursuant to the terms hereof may be repaid, in each case so long as no Default or Event of Default shall have occurred and be continuing and (ii) except as specifically consented to by all the Lenders in writing, until the

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prior payment in full of all the Obligations, expiration or other termination of all outstanding Letters of Credit and termination of the Commitments.

(b) In the event that any payment on any such Indebtedness shall be received by any Credit Party other than as permitted by Section 13.16(a) before payment in full of all Obligations, expiration or other termination of all outstanding Letters of Credit and termination of the Commitments, such Credit Party shall receive such payments and hold the same in trust for the Agent segregate the same from its own assets and immediately pay over to the Agent for itself, the Issuing Bank and the Lenders all such sums to the extent necessary so that the Agent, the Issuing Bank and the Lenders shall have been paid all Obligations owed or which may become owing.

SECTION 13.17. Confidentiality. Each of the Lenders, the Agent and the Issuing Bank hereby agrees that it will use its best efforts to treat any information obtained from the Credit Parties and their Affiliates in connection with this Credit Agreement as confidential, except that each of the Lenders, the Agent and the Issuing Bank shall be permitted to disclose information (i) to their Affiliates and to their (and their Affiliates') respective officers, directors, trustees, employees, agents, auditors, attorneys and representatives (who will be informed of the confidential nature of the material); (ii) to prospective assignees in accordance with Section 13.3(h) hereof, (iii) to the extent required by Applicable Law or by any subpoena or similar legal process; (iv) to the extent requested by any bank or other regulatory authority; (v) to the extent such information (A) becomes publicly available other than as a result of a breach of this provision or any confidentiality letter executed by any prospective assignee addressed to the Borrower, its representatives or agents, (B) becomes available to any of the Lenders, the Agent or the Issuing Bank on a nonconfidential basis from a source other than the Credit Parties or any of their respective Affiliates which source is not known to such Lender, the Agent or the Issuing Bank to be prohibited from transmitting the information by a contractual, legal or fiduciary obligation or (C) was available to any of the Lenders, the Agent or the Issuing Bank on a nonconfidential basis prior to its disclosure to any of the Lenders, the Agent or the Issuing Bank by any Credit Party or any of their respective Affiliates; (vi) to the extent any Credit Party, prior to such disclosure, shall have consented to such disclosure in writing; or (vii) in connection with the enforcement by any Lender, the Agent or the Issuing Bank of its rights under or in respect of this Credit Agreement.

SECTION 13.18. Entire Agreement. This Credit Agreement (including the Exhibits and Schedules hereto) and the other Fundamental Documents represent the entire agreement of the parties with regard to the subject matter hereof and the terms of any letters and other documentation entered into between any of the parties hereto (other than the Fee Letter) prior to the execution of this Credit Agreement which relate to Loans to be made or the Letters of Credit to be issued hereunder shall be replaced by the terms of this Credit Agreement.

SECTION 13.19. Right of Set-Off. Upon the occurrence and during the continuance of any Event of Default, each of the Agent and the Lenders is hereby authorized at any time and from time to time, to the fullest extent permitted by law and without order of or application to any court, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Person to or for the credit or the account of any Credit Party against any and all of the Obligations,

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irrespective of whether or not such Person shall have made any demand under any Fundamental Document and although the Obligations may not have been accelerated. The rights of each Lender and the Agent under this Section are in addition to other rights and remedies which such Lender and the Agent may have upon the occurrence and during the continuance of any Event of Default.

#### 14. HALLMARK SUBORDINATED PARTICIPATION

##### SECTION 14.1. Sale and General Terms of Participation Upon A Payment Under the Hallmark Cards Facility Guarantee.

(a) The net proceeds received by the Agent from any payment made by Hallmark Cards under the Hallmark Cards Facility Guarantee shall not be applied to repay Obligations but shall instead be treated as the purchase price for the sale of a subordinated participation in the Obligations from the Agent and the Lenders to Hallmark Cards. Such subordinated participation in the Obligations shall be purchased at the face amount and shall be hereinafter referred to as the "Hallmark Subordinated Participation". If the amount of the drawing is less than the amount of the outstanding Obligations, the purchase shall be deemed to be made in the following order: (i) claims other than principal and interest, (ii) interest, and (iii) principal.

(b) The purchase and sale of the Hallmark Subordinated Participation shall be automatic and shall not require any action on behalf of Hallmark Cards or on behalf of the Lenders. Such purchase and sale shall be pro rata among all of the Lenders. To the extent that such purchase and sale is of the outstanding principal amount of the Loans, the Agent shall give notice to each of the Lenders and each Lender shall annex to its Note the notice from the Agent which memorializes the amount of the subordinated participation being purchased in that Note.

(c) Such purchase and sale shall be without any representation, warranty or recourse to the Agent or the Lenders; provided, however, that each Lender makes a representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby and that such interest is free and clear of any adverse claims. The assigning Lender makes no representation or warranty and assumes no responsibility with regard to any of the statements, warranties or representations made in or in connection with any Fundamental Document or as to the execution, legality, validity, enforceability, genuineness or sufficiency or value thereof or of any instrument or documentation furnished pursuant thereto.

(d) Once all of the Senior Obligations have been paid in full, each of the Lenders shall, if requested by Hallmark Cards and at the expense of Hallmark Cards, endorse its Note without representation, warranty or recourse to Hallmark Cards and deliver such Note to the Agent for delivery to Hallmark Cards. At that point in time, the Credit Parties and Hallmark Cards agree that the Agent may immediately resign notwithstanding any provisions to the contrary contained in the Credit Agreement and that the Agent and the Issuing Bank shall continue to be entitled to all of the indemnities provided in the Credit Agreement as secured Lenders with regard to all matters relating to periods or actions taken prior to their resignation. To the extent that there are any Letters of Credit outstanding at the time of a payment by Hallmark Cards under the Hallmark Cards Facility Guarantee, cash received by the Agent subsequent to such payment shall be used first to provide cash collateral for such Letters of Credit.

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(e) Notwithstanding any provisions to the contrary in the Credit Agreement, the Junior Creditor shall not be entitled to any right of consent or to vote under the Credit Agreement or to receive any payments with regard to accrued interest and fees or other amounts applicable to the Hallmark Subordinated Participation until all of the Senior Obligations shall have been paid in full.

(f) The Borrower acknowledges that the Total Commitment shall terminate upon any assertion by the Agent of any claim under the Hallmark Cards Facility Guarantee and that subsequent thereto neither the Agent, the Issuing Bank nor the Lenders shall be obligated to provide any additional credit whatsoever to the Credit Parties.

SECTION 14.2. Agreement to Subordinate. The Junior Creditor agrees that the Junior Obligations are and shall be subordinate and junior in right of payment, to the extent and in the manner hereinafter set forth, to the prior payment in full of the Senior Obligations. Interest on the Hallmark Subordinated Participation shall accrue in accordance with the provisions of Section 2.6 hereof, but no payment of principal or interest or any other amounts shall be made with respect to the Junior Obligations until all of the Senior Obligations have been paid in full. Any payment of principal of, or interest on, the Loans or any other amounts with regard to Obligations received or collected by the Agent, any Lender or the Junior Creditor shall be allocated first entirely to the Senior Obligations until the Senior Obligations are paid in full and only thereafter allocated to the Junior Obligations. The expressions "prior payment in full", "payment in full", "paid in full" or any other similar term or phrase when used herein with respect to the Senior Obligations shall mean the payment in full, in cash, of all of the Senior Obligations.

SECTION 14.3. Restrictions on Payment of the Junior Obligations. The Junior Creditor shall not ask, demand, sue for, take or receive, directly or indirectly, from any Credit Party, in cash or other property, by setoff, by realizing upon the Collateral, foreclosing on any lien or otherwise, by exercise of any remedies or rights under this Credit Agreement or by executions, garnishments, or in any other manner, payment of, or additional security for, all or any part of the Junior Obligations unless and until the Senior Obligations shall have been paid in full. The Credit Parties will not make any payment of the Junior Obligations, or take any other action, in contravention of the provisions of this Article 14.

SECTION 14.4. Additional Provisions Concerning Subordination. The Junior Creditor and the Credit Parties agree as follows:

(a) In the event of (x) any dissolution, winding-up, liquidation or reorganization of a Credit Party (whether voluntary or involuntary and whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors or proceedings for voluntary or involuntary liquidation, dissolution or other winding-up of the Credit Party, whether involving insolvency or bankruptcy, or any other marshalling of the assets and liabilities of the Credit Party or otherwise), or (y) any Event of Default or an event that with notice or passage of time would constitute an Event of Default, or any default, demand for payment or acceleration of maturity regarding the Junior Obligations:

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(i) all Senior Obligations shall first be paid in full to the Agent for the benefit of the holders of the Senior Obligations before any payment or distribution is made upon the principal of, interest on, or any fees, costs, charges or expenses in connection with, the Junior Obligations; and

(ii) to the extent necessary to pay in full all Senior Obligations remaining unpaid after giving effect to any concurrent payment or distribution to the holders of the Senior Obligations, any payment or distribution of assets of a Credit Party, whether in cash, property or securities to which the Junior Creditor would be entitled except for the provisions hereof, shall be paid or delivered by the Credit Party, or any receiver, trustee in bankruptcy, liquidating trustee, disbursing agent, agent or other person making such payment or distribution, directly to the Agent to be applied to outstanding Senior Obligations before any payment or distribution is made upon the Junior Obligations.

(b) In any proceeding referred to or resulting from any event referred to in subsection (a) of this Section 14.4 commenced by or against the Borrower:

(i) The Agent may, and is hereby irrevocably authorized and empowered (in its own name or in the name of the Junior Creditor or otherwise), but shall have no obligation to, (A) demand, sue for, collect and receive every payment or distribution referred to in subsection (a) of this Section 14.4 and give acquittance therefor, (B) file claims and proofs of claim in respect of the Junior Obligations and (C) take such other action as the Agent may deem necessary or advisable for the exercise or enforcement of any of the rights or interests of the Agent and the Lenders.

(ii) The Junior Creditor will duly and promptly take such action as the Agent may reasonably request to collect the Junior Obligations for the account of the holders of the Senior Obligations and to file appropriate claims or proofs of claim with respect thereto, to execute and deliver to the Agent such powers of attorney, assignments or other instruments as the Agent may request in order to enable it to enforce any and all claims with respect to the Junior Obligations, and to collect and receive any and all payments or distributions that may be payable or deliverable upon or with respect to the Junior Obligations.

(c) All payments or distributions upon or with respect to the Junior Obligations that are received by the Junior Creditor contrary to the provisions of this Article 14 shall be deemed to be the property of the holders of the Senior Obligations, shall be received in trust for the benefit of the holders of the Senior Obligations, shall be segregated from other funds and property held by the Junior Creditor and shall be forthwith paid over to the Agent for the benefit of the holders of the Senior Obligations in the same form as so received (with any necessary endorsement) to be applied to the payment or prepayment of the Senior Obligation until the Senior Obligations shall have been paid in full.

(d) The subordination provisions contained herein are for the benefit of each holder of Senior Obligations and may not be rescinded, modified or cancelled at any time without the prior written consent of all holders.

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(e) So long as the Junior Obligations remains outstanding, the Junior Creditor agrees not to assert any direct right of legal redress against a Credit Party with respect to the Junior Obligations. The Junior Creditor hereby authorizes the Agent to take legal action to enforce or protect their interest with respect to the Senior Obligations as it may from time to time see fit.

(f) Any holder of Senior Obligations may at any time or from time to time grant to others assignments or participations in the Loans pursuant to the terms of Section 13.3 hereof. Any such assignment or participation shall continue to be treated as a Senior Obligation of the Credit Parties and any holder of such an assignment or participation shall be entitled to the benefits of the subordination set forth in Section 14.2 above. The Junior Creditor will not sell, assign or otherwise dispose of the Junior Obligations or any portion thereof, or grant any sub-participation therein, without the prior written consent of the Required Lenders.

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IN WITNESS WHEREOF, the parties hereto have caused this Credit Agreement to be duly executed as of the day and the year first written.

BORROWER:

CROWN MEDIA HOLDINGS, INC.

[signature block omitted]

CM INTERMEDIARY, LLC  
CROWN MEDIA UNITED STATES, LLC  
CITI TEEVEE, LLC  
DOONE CITY PICTURES, LLC

[signature block omitted]

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LENDERS:

JPMORGAN CHASE BANK, N.A., individually and as Agent and  
Issuing Bank

---

[signature block omitted]

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**H C CROWN CORP**

103 Foulk Road, Suite 214 Wilmington, DE 19803 (302) 654-7584 Fax (302) 652-8667

March 19, 2010

Crown Media Holdings, Inc.  
12700 Ventura Boulevard  
Studio City, California 91604  
Attention: Chief Executive Officer

Crown Media Holdings, Inc.  
12700 Ventura Boulevard  
Studio City, California 91604  
Attention: Chief Financial Officer

Crown Media Holdings, Inc.  
12700 Ventura Boulevard  
Studio City, California 91604  
Attention: General Counsel

Re: Recapitalization Agreement

Gentlemen:

Reference is hereby made to that certain Master Recapitalization Agreement, dated as of February 26, 2010 (the "Recapitalization Agreement"), by and among by and among Hallmark Cards, Incorporated, a Missouri corporation ("Hallmark Cards"), H C Crown Corp., a Delaware corporation ("HCC" and, together with Hallmark Cards, the "Hallmark Lenders"), Hallmark Entertainment Holdings, Inc., a Delaware corporation ("HEH" and, collectively with the Hallmark Lenders, the "Hallmark Parties"), Crown Media Holdings, Inc., a Delaware corporation (the "Company"), Crown Media United States, LLC, a Delaware limited liability company ("CMUS"), and the subsidiaries of the Company listed as Guarantors on the Credit Facility (the "Guarantors," and, together with the Company and CMUS, the "Debtors"). Capitalized terms used but not otherwise defined in this letter shall have the respective meanings ascribed thereto in the Recapitalization Agreement.

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not later than March 20, 2010) the Information Statement in a form that complies in all material respects with the requirements of the Exchange Act and the rules and regulations promulgated thereunder (the "Covenant"). The Hallmark Parties understand that the Company has determined that it would be advisable to present the Information Statement to the Company's Board of Directors at a meeting thereof scheduled to be held on March 25, 2010 and to file the Information Statement with the SEC following approval thereof by the Company's Board of Directors at such meeting. In light of the foregoing, the Debtors have requested that the Hallmark Parties amend the Covenant.

The parties to this letter agreement hereby agree that Section 5.5 of the Recapitalization Agreement shall be amended to change the date contained in the third line thereof from March 20, 2010 to March 31, 2010.

Except as otherwise expressly provided herein, the terms and conditions of the Recapitalization Agreement remain unchanged and the Hallmark Parties hereby reserve all rights and remedies available to them at law, in equity and under the Recapitalization Agreement and the Ancillary Documents.

Please acknowledge that the foregoing is acceptable by executing a counterpart to this letter and returning it to the Hallmark Parties in accordance with Section 11 (Notices) of the Recapitalization Agreement.

[Remainder of page intentionally left blank]

In witness whereof, the undersigned has executed this letter as of the date first above written.

HALLMARK CARDS, INCORPORATED

By: /s/ Timothy Griffith

\_\_\_\_\_  
Name: Timothy Griffith

Title: Executive Vice President – CFO

H C CROWN CORP.

By: /s/ Timothy Griffith

\_\_\_\_\_  
Name: Timothy Griffith

Title: Vice President

HALLMARK ENTERTAINMENT HOLDINGS, INC.

By: /s/ Timothy Griffith

\_\_\_\_\_  
Name: Timothy Griffith

Title: President

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Accepted and agreed (with the consent of the Special Committee) this 19<sup>th</sup> day of March, 2010.

CROWN MEDIA HOLDINGS, INC.

By: /s/ C. Stanford

\_\_\_\_\_  
Name: Charles Stanford

Title: Executive Vice President

CROWN MEDIA UNITED STATES, LLC

By: /s/ C. Stanford

\_\_\_\_\_  
Name: Charles Stanford

Title: Executive Vice President

CM INTERMEDIARY, LLC

By: /s/ C. Stanford

\_\_\_\_\_  
Name: Charles Stanford

Title: Executive Vice President

CITI TEEVEE, LLC

By: /s/ C. Stanford

\_\_\_\_\_  
Name: Charles Stanford

Title: Executive Vice President

DOONE CITY PICTURES, LLC

By: /s/ C. Stanford

\_\_\_\_\_  
Name: Charles Stanford

Title: Executive Vice President

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SECURITY AGREEMENT  
DATED AS OF JUNE 29, 2010  
AMONG  
CROWN MEDIA HOLDINGS, INC.  
AS DEBTOR  
AND  
HC CROWN CORP.  
AS SECURED PARTY

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THIS SECURITY AGREEMENT, (this "Agreement") dated as of June 29, 2010 between Crown Media Holdings, Inc, a Delaware corporation (the "Debtor"), each of the Guarantors listed on the signature pages hereto (the "Guarantors" and together with the Debtor, the "Grantors") and HC Crown Corp., a Delaware corporation (the "Secured Party").

WHEREAS, the Debtor and the Secured Party are each a party to that certain Security and Pledge Agreement, dated July 27, 2007 (as amended, supplemented or modified from time to time the "2007 Security Agreement") by and among the Debtor, the subsidiaries of the Debtor listed as Guarantors on that certain Credit, Security, Guarantee and Pledge Agreement dated as of August 31, 2001, as subsequently amended, among Debtor, the Guarantors named therein, the Lenders named therein and JPMorgan Chase as Agent and Hallmark Cards, Incorporated on behalf of itself and as agent for each of the Secured Party and Hallmark Entertainment Holdings, Inc., and the Debtor and the Secured party wish to, and hereby do, continue and extend the security interest granted therein;

WHEREAS, the Grantors have entered into a Credit Agreement dated as of June 29, 2010 (as amended and in effect from time to time, the "Credit Agreement"), with the Secured Party, pursuant to which the Secured Party, subject to the terms and conditions contained therein, is deemed to make loans to the Debtor; and

WHEREAS, it is a condition precedent to the Secured Party's entry into the Credit Agreement that the Grantors execute and deliver to the Secured Party a security agreement in substantially the form hereof; and

WHEREAS, the each of the Grantors wishes to grant a security interest in favor of the Secured Party as herein provided;

NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein without definitions shall have the respective meanings provided therefor in the Credit Agreement. The term "State," as used herein, means the State of New York. All terms defined in the Uniform Commercial Code of the State and used herein shall have the same definitions herein as specified therein. However, if a term is defined in Article 9 of the Uniform Commercial Code of the State differently than in another Article of the Uniform Commercial Code of the State, the term has the meaning specified in Article 9.

2. Grant of Security Interest. The Grantors hereby continue and extend the security interest granted pursuant to the 2007 Security Agreement and grants to the Secured Party, to secure the payment and performance in full of all of the Obligations, a security interest in and so pledges and assigns to the Secured Party the following properties, assets and rights of the Grantors, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"): all personal and fixture property of every kind and nature including without limitation all goods (including inventory,

equipment and any accessions thereto), instruments (including promissory notes), documents, accounts (including health-care-insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to the payment of money, insurance claims and proceeds, and all general intangibles (including all payment intangibles). The Secured Party acknowledges that the attachment of its security interest in any additional commercial tort claim as original collateral is subject to the Grantor's compliance with Section 4.7.

3. Authorization to File Financing Statements. The Grantors hereby irrevocably authorize the Secured Party at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of the Grantors or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the State or such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) provide any other information required by part 5 of Article 9 of the Uniform Commercial Code of the State, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Grantor is an organization, the type of organization and any organizational identification number issued to the Grantor and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. The Grantors agree to furnish any such information to the Secured Party promptly upon the Secured Party's request. The Grantors each also ratify their authorization for the Secured Party to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

4. Other Actions. To further the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in the Collateral, and without limitation on the Grantor's other obligations in this Agreement, each Grantor agrees, in each case at such Grantor's expense, to take the following actions with respect to the following Collateral:

4.1 Promissory Notes and Tangible Chattel Paper. If any Grantor shall at any time hold or acquire any promissory notes or tangible chattel paper, such Grantor shall forthwith endorse, assign and deliver the same to the Secured Party, or for so long as the Credit, Security, Guaranty and Pledge Agreement, dated as of August 31, 2001, (as amended the "Revolver"), the Borrower, the Guarantors named therein, the Lenders referred to therein and JPMorgan Chase Bank, N.A., as Administrative Agent (the "Revolver Agent") and as Issuing Bank for the Lenders is outstanding, the Revolver Agent, in accordance with the Intercreditor Agreement, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party or the Revolver Agent may from time to time specify.

4.2 Deposit Accounts. For each deposit account that the any Grantor may at any time open or maintain, such Grantor shall, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (a) cause the depository bank to comply at any time with instructions from the Secured Party to such depository bank directing the disposition of funds from time to time credited to such deposit account, without

further consent of the Grantor, or (b) arrange for the Secured Party to become the customer of the depository bank with respect to the deposit account, with the Grantor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw funds from such deposit account. The provisions of this paragraph shall not apply to (i) any deposit account for which the Grantor the depository bank and the Secured Party have entered into a cash collateral agreement specially negotiated among the Grantor, the depository bank and the Secured Party for the specific purpose set forth therein, (ii) a deposit account for which the Secured Party is the depository bank and is in automatic control, and (iii) deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of the Grantor's salaried employees.

4.3 Investment Property. If any Grantor shall at any time hold or acquire any certificated securities, the Grantor shall forthwith endorse, assign and deliver the same to the Secured Party, or provided the Revolver is still in effect, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify. If any securities now or hereafter acquired by the Grantor are uncertificated and are issued to the Grantor or its nominee directly by the issuer thereof, the Grantor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (a) cause the issuer to agree to comply with instructions from the Secured Party as to such securities, without further consent of the Grantor or such nominee, or (b) arrange for the Secured Party to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by any Grantor are held by the Grantor or its nominee through a securities intermediary or commodity intermediary, the Grantor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to agree to comply with entitlement orders or other instructions from the Secured Party to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Secured Party to such commodity intermediary, in each case without further consent of the Grantor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Secured Party to become the entitlement holder with respect to such investment property, with the Grantor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw or otherwise deal with such investment property. The provisions of this paragraph shall not apply to any financial assets credited to a securities account for which the Secured Party is the securities intermediary.

4.4 Collateral in the Possession of a Bailee. If any Collateral is at any time in the possession of a bailee, the Grantor shall promptly notify the Secured Party thereof and, at the Secured Party's request and option, shall promptly obtain an acknowledgement from the bailee, in form and substance satisfactory to the Secured Party, that the bailee holds such Collateral for the benefit of the Secured Party, and that such bailee agrees to comply, without further consent of the Grantor, with instructions from the Secured Party as to such Collateral.

4.5 Electronic Chattel Paper and Transferable Records. If the Grantor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record," as

that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Grantor shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, shall take such action as the Secured Party may reasonably request to vest in the Secured Party control, under Section 9-105 of the Uniform Commercial Code, of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record.

4.6 Letter-of-Credit Rights. If any Grantor is at any time a beneficiary under a letter of credit, the Grantor shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, the Grantor shall, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (i) arrange for the issuer and any confirmer or other nominated person of such letter of credit to consent to an assignment to the Secured Party of the proceeds of the letter of credit, or (ii) arrange for the Secured Party to become the transferee beneficiary of the letter of credit.

4.7 Commercial Tort Claims. If any Grantor shall at any time hold or acquire a commercial tort claim, the Grantor shall immediately notify the Secured Party in a writing signed by the Grantor of the particulars thereof and grant to the Secured Party in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to the Secured Party.

4.8 Other Actions as to Any and All Collateral. Each Grantor further agrees, at the request and option of the Secured Party, to take any and all other actions the Secured Party may determine to be necessary or useful for the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in any and all of the Collateral, including, without limitation, (a) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, to the extent, if any, that the Grantor's signature thereon is required therefor, (b) causing the Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (c) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (d) obtaining governmental and other third party waivers, consents and approvals in form and substance satisfactory to Secured Party, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, (e) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Secured Party and (f) taking all actions under any earlier versions of the Uniform Commercial Code or under any other law, as reasonably determined by the Secured Party to be applicable in any relevant Uniform Commercial Code or other jurisdiction, including any foreign jurisdiction.

5. Relation to Other Security Documents.

5.1 Pledge Agreement. Concurrently herewith each Grantor is executing and delivering to the Secured Party, pledge agreement(s) pursuant to which the Grantor is pledging to the Secured Party all the Equity Interests of the Borrower's subsidiaries. Such pledges shall be governed by the terms of such pledge agreements and not by the terms of this Agreement.

5.2 Trademark and Copyright Security Agreements. Concurrently herewith each Grantor is also executing and delivering to the Secured Party the Trademark and Copyright Security Agreements in the form attached hereto as Exhibit A, pursuant to which the Grantor is granting to the Secured Party security interests in certain Collateral consisting of trademarks, service marks and trademark and service mark rights, together with the goodwill appurtenant thereto, copyrights, and copyright registrations. The provisions of the Trademark and Copyright Security Agreements are supplemental to the provisions of this Agreement, and nothing contained in the Trademark and Copyright Security Agreements shall derogate from any of the rights or remedies of the Secured Party hereunder. Neither the delivery of, nor anything contained in, the Trademark and Copyright Security Agreements shall be deemed to prevent or postpone the time of attachment or perfection of any security interest in such Collateral created hereby.

5.3 Copyright Memorandum. Concurrently herewith each Grantor is executing and delivering to the Secured Party for recording in the United States Copyright Office (the "Copyright Office") a Memorandum of Grant of Security Interest in Copyrights. Each Grantor represents and warrants to the Secured Party that such Memorandum identifies all now existing material copyrights and other rights in and to all material copyrightable works of the Grantor, identified, where applicable, by title, author and/or Copyright Office registration number and date. Each Grantor covenants, promptly following the Grantor's acquisition thereof, to provide to the Secured Party like identifications of all material copyrights and other rights in and to all material copyrightable works hereafter acquired by the Grantor, to register such copyrights with the Copyright Office, and to execute and deliver to the Secured Party a supplemental Memorandum of Grant of Security Interest in Copyrights, in form and substance satisfactory to the Secured Party, modified to reflect such subsequent acquisitions and registrations.

6. Representations and Warranties Concerning Grantor's Legal Status. The Grantors have previously delivered to the Secured Party a certificate signed by the Grantors and entitled "Perfection Certificate", substantially in the form of Schedule 1 to this Agreement (the "Perfection Certificate"). Each Grantor represents and warrants to the Secured Party as follows: (a) the Grantor's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof, (b) the Grantor is an organization of the type, and is organized in the jurisdiction set forth in the Perfection Certificate, (c) the Perfection Certificate accurately sets forth the Grantor's organizational identification number or accurately states that the Grantor has none, (d) the Perfection Certificate accurately sets forth the Grantor's place of business or, if more than one, its chief executive office, as well as the Grantor's mailing address, if different, (e) all other information set forth on the Perfection Certificate pertaining to the Grantor is accurate and complete, and (f) that there has been no change in any information provided in the Perfection Certificate since the date on which it was executed by the Grantor.

7. Covenants Concerning Grantor's Legal Status. Each Grantor covenants with the Secured Party as follows: (a) without providing at least thirty (30) days prior written notice to the Secured Party, the Grantor will not change its name, its place of business or, if more than one, chief

executive office, or its mailing address or organizational identification number if it has one, (b) if the Grantor does not have an organizational identification number and later obtains one, the Grantor shall forthwith notify the Secured Party of such organizational identification number, and (c) the Grantor will not change its type of organization, jurisdiction of organization or other legal structure.

8. Representations and Warranties Concerning Collateral, etc. Each Grantor further represents and warrants to the Secured Party as follows: (a) the Grantor is the owner of the Collateral, free from any right or claim or any person or any adverse lien, security interest or other encumbrance, except for the security interest created by this Agreement and other liens permitted by the Credit Agreement, (b) none of the Collateral constitutes, or is the proceeds of, "farm products" as defined in Section 9-102(a)(34) of the Uniform Commercial Code of the State, (c) none of the account debtors or other persons obligated on any of the Collateral is a governmental authority covered by the Federal Assignment of Claims Act or like federal, state or local statute or rule in respect of such Collateral, (d) the Grantor holds no commercial tort claim except as indicated on the Perfection Certificate, and (e) the Grantor has at all times operated its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances, (f) all other information set forth on the Perfection Certificate pertaining to the Collateral is accurate and complete, and (g) that there has been no change in any information provided in the Perfection Certificate since the date on which it was executed by the Grantor.

9. Covenants Concerning Collateral, etc. Each Grantor further covenants with the Secured Party as follows: (a) the Collateral, to the extent not delivered to the Secured Party pursuant to Section 4, will be kept at those locations listed on the Perfection Certificate and the Grantor will not remove the Collateral from such locations, without providing at least thirty days prior written notice to the Secured Party, (b) except for the security interest herein granted and liens permitted by the Credit Agreement, the Grantor shall be the owner of the Collateral free from any right or claim of any other person, lien, security interest or other encumbrance, and the Grantor shall defend the same against all claims and demands of all persons at any time claiming the same or any interests therein adverse to the Secured Party, (c) the Grantor shall not pledge, mortgage or create, or suffer to exist any right of any person in or claim by any person to the Collateral, or any security interest, lien or encumbrance in the Collateral in favor of any person, other than the Secured Party except for liens permitted by the Credit Agreement, (d) the Grantor will keep the Collateral in good order and repair and will not use the same in violation of law or any policy of insurance thereon, (e) the Grantor will permit the Secured Party, or its designee, to inspect the Collateral at any reasonable time, wherever located, (f) the Grantor will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of such Collateral or incurred in connection with this Agreement, (g) the Grantor will continue to operate, its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances, and (h) the Grantor will not sell or otherwise dispose, or offer to sell or otherwise dispose, of the Collateral or any interest therein except for (i) sales of inventory and licenses of general intangibles in the ordinary course of business and (ii) dispositions permitted by Section 6.6 of the Credit Agreement.

10. Insurance. Each Grantor shall at all times comply with the insurance covenants set forth in Section 5.5 of the Credit Agreement.

11. Collateral Protection Expenses; Preservation of Collateral.

11.1 Expenses Incurred by Secured Party. In the Secured Party's discretion, if any Grantor fails to do so, the Secured Party may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, maintain any of the Collateral, make repairs thereto and pay any necessary filing fees or insurance premiums. Each Grantor agrees to reimburse the Secured Party on demand for all expenditures so made. The Secured Party shall have no obligation to the Grantor to make any such expenditures, nor shall the making thereof be construed as the waiver or cure of any Default or Event of Default.

11.2 Secured Party's Obligations and Duties. Anything herein to the contrary notwithstanding, each Grantor shall remain obligated and liable under each contract or agreement comprised in the Collateral to be observed or performed by the Grantor thereunder. The Secured Party shall not have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Secured Party of any payment relating to any of the Collateral, nor shall the Secured Party be obligated in any manner to perform any of the obligations of the Grantor under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Secured Party in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Secured Party or to which the Secured Party may be entitled at any time or times. The Secured Party's sole duty with respect to the custody, safe keeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Uniform Commercial Code of the State or otherwise, shall be to deal with such Collateral in the same manner as the Secured Party deals with similar property for its own account.

12. Securities and Deposits. The Secured Party may at any time following and during the continuance of an Event of Default, at its option, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. Whether or not any Obligations are due, the Secured Party may following and during the continuance of an Event of Default demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Obligations, any deposits or other sums at any time credited by or due from the Secured Party to any Grantor may at any time be applied to or set off against any of the Obligations.

13. Notification to Account Debtors and Other Persons Obligated on Collateral. If an Event of Default shall have occurred and be continuing, each Grantor shall, at the request and option of the Secured Party, notify account debtors and other persons obligated on any of the Collateral of the security interest of the Secured Party in any account, chattel paper, general intangible, instrument or other Collateral and that payment thereof is to be made directly to the Secured Party or to any financial institution designated by the Secured Party as the Secured Party's agent therefor, and the Secured Party may itself, if an Event of Default shall have occurred and be

continuing, without notice to or demand upon the Grantor, so notify account debtors and other persons obligated on Collateral. After the making of such a request or the giving of any such notification, the Grantor shall hold any proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Grantor as trustee for the Secured Party without commingling the same with other funds of the Grantor and shall turn the same over to the Secured Party in the identical form received, together with any necessary endorsements or assignments. The Secured Party shall apply the proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Secured Party to the Obligations, such proceeds to be immediately credited after final payment in cash or other immediately available funds of the items giving rise to them.

14. Power of Attorney.

14.1 Appointment and Powers of Secured Party. Each Grantor hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the place and stead of the Grantor or in the Secured Party's own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or useful to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives said attorneys the power and right, on behalf of the Grantor, without notice to or assent by the Grantor, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise dispose of or deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the State and as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the Grantor's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary or useful to protect, preserve or realize upon the Collateral and the Secured Party's security interest therein, in order to effect the intent of this Agreement, all at least as fully and effectively as the Grantor might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropriate federal, state, local or other agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to the Grantor, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Secured Party so elects, with a view to causing the liquidation of assets of the issuer of any such securities, and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to the extent that the Grantor's authorization given in Section 3 is not sufficient, to file such financing statements with respect hereto, with or without the Grantor's signature, or a photocopy of this Agreement in substitution for a financing statement, as the Secured Party may deem appropriate and to execute in the Grantor's name such financing statements and amendments thereto and continuation statements which may require the Grantor's signature.

14.2 Ratification Grantors. To the extent permitted by law, each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and is irrevocable.

14.3 No Duty on Secured Party. The powers conferred on the Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Grantor for any act or failure to act, except for the Secured Party's own gross negligence or willful misconduct.

15. Rights and Remedies. If an Event of Default shall have occurred and be continuing, the Secured Party, without any other notice to or demand upon any Grantor have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code of the State and any additional rights and remedies which may be provided to a secured party in any jurisdiction in which Collateral is located, including, without limitation, the right to take possession of the Collateral, and for that purpose the Secured Party may, so far as the Grantor can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Secured Party may in its discretion require the Grantor to assemble all or any part of the Collateral at such location or locations within the jurisdiction(s) of the Grantor's principal office(s) or at such other locations as the Secured Party may reasonably designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party shall give to the Grantor at least five (5) Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. The Grantor hereby acknowledges that five (5) Business Days prior written notice of such sale or sales shall be reasonable notice. In addition, the Grantor waives any and all rights that it may have to a judicial hearing in advance of the enforcement of any of the Secured Party's rights and remedies hereunder, including, without limitation, its right following an Event of Default to take immediate possession of the Collateral and to exercise its rights and remedies with respect thereto.

16. Standards for Exercising Rights and Remedies. To the extent that applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, the Grantor acknowledges and agrees that it is not commercially unreasonable for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to fail to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against account debtors or other persons obligated on Collateral or to fail to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other persons, whether or not in the same business as the Grantor, for expressions of interest in acquiring all or any portion of the

Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party against risks of loss, collection or disposition of Collateral or to provide to the Secured Party a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. The Grantor acknowledges that the purpose of this Section 16 is to provide non-exhaustive indications of what actions or omissions by the Secured Party would fulfill the Secured Party's duties under the Uniform Commercial Code or other law of the State or any other relevant jurisdiction in the Secured Party's exercise of remedies against the Collateral and that other actions or omissions by the Secured Party shall not be deemed to fail to fulfill such duties solely on account of not being indicated in this Section 16. Without limitation upon the foregoing, nothing contained in this Section 16 shall be construed to grant any rights to the Grantor or to impose any duties on the Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 16.

17. No Waiver by Secured Party, etc. The Secured Party shall not be deemed to have waived any of its rights or remedies in respect of the Obligations or the Collateral unless such waiver shall be in writing and signed by the Secured Party. No delay or omission on the part of the Secured Party in exercising any right or remedy shall operate as a waiver of such right or remedy or any other right or remedy. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. All rights and remedies of the Secured Party with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Secured Party deems expedient.

18. Suretyship Waivers by Grantor. The Grantor waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, the Grantor assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Secured Party may deem advisable. The Secured Party shall have no duty as to the collection or protection of the Collateral or any income therefrom, the preservation of rights against prior parties, or the preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in Section 11.2. The Grantor further waives any and all other suretyship defenses.

19. Marshalling. The Secured Party shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other

assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, the Grantor hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Grantor hereby irrevocably waives the benefits of all such laws.

20. Proceeds of Dispositions; Expenses. The Grantor shall pay to the Secured Party on demand any and all expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Secured Party in protecting, preserving or enforcing the Secured Party's rights and remedies under or in respect of any of the Obligations or any of the Collateral. After deducting all of said expenses, the residue of any proceeds of collection or sale or other disposition of the Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as the Secured Party may determine. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required by Sections 9-608(a)(1)(C) or 9-615(a)(3) of the Uniform Commercial Code of the State, any excess shall be returned to the Grantor. In the absence of final payment and satisfaction in full of all of the Obligations, the Grantor shall remain liable for any deficiency.

21. Overdue Amounts. Until paid, all amounts due and payable by the Grantor hereunder shall be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at the rate of interest for overdue principal set forth in the Credit Agreement.

22. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by any Grantor herefrom shall in any event be effective unless the same shall be in writing and signed by the Debtor and the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of Secured Party to exercise, and no delay in exercising any right under this Agreement, any other Fundamental Document, or otherwise with respect to any of the Secured Obligations, shall operate as a waiver thereof; nor shall any single or partial exercise of any right under this Agreement, any other Fundamental Document, or otherwise with respect to any of the Secured Obligations preclude any other or further exercise thereof or the exercise of any other right. The remedies provided for in this Agreement or otherwise with respect to any of the Secured Obligations are cumulative and not exclusive of any remedies provided by law.

23. Notices.

Unless otherwise specifically provided herein, all notices shall be in writing addressed to the respective party as set forth below: and may be personally served, faxed, telecopied or sent by overnight courier service or United States mail:

If to any Grantor:

Crown Media Holdings, Inc.

12700 Ventura Blvd.  
Studio City, California 91604  
Attention: William J. Abbott

If to Secured Party:

Hallmark Cards, Inc.  
2501 McGee, Mail Drop 342  
Kansas City, MO 64108  
Attention: Tim Griffith

with a copy to:

Willkie Farr & Gallagher LL  
787 Seventh Avenue  
New York, New York 10019  
Attention: Maurice M. Lefkort

Any notice given pursuant to this section shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by fax, on the date of transmission if transmitted on a Business Day before 4:00 p.m. at the place of receipt or, if not, on the next succeeding Business Day; (c) if delivered by overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by United States mail, four (4) Business Days after depositing in the United States mail, with postage prepaid and properly addressed. Any party hereto may change the address or fax number at which it is to receive notices hereunder by notice to the other party in writing in the foregoing manner.

24. Governing Law; Consent to Jurisdiction. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. The Grantor agrees that any action or claim arising out of, or any dispute in connection with, this Agreement, any rights, remedies, obligations, or duties hereunder, or the performance or enforcement hereof or thereof, may be brought in the courts of the State or any federal court sitting therein, or in the courts of the State of Delaware sitting in New Castle county Delaware or of the United States District Court of the District of Delaware and consents to the non-exclusive jurisdiction of such court and to service of process in any such suit being made upon the Grantor by mail at the address specified in Section 9.1 of the Credit Agreement. The Grantor hereby waives

any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

25. Waiver of Jury Trial. THE GRANTOR WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS, REMEDIES, OBLIGATIONS, OR DUTIES HEREUNDER, OR THE PERFORMANCE OR ENFORCEMENT HEREOF OR THEREOF. Except as prohibited by law, the Grantor waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Grantor (i) certifies that neither the Secured Party nor any representative, agent or attorney of the Secured Party has represented, expressly or otherwise, that the Secured Party would not, in the event of litigation, seek to enforce the foregoing waivers or other waivers contained in this Agreement, and (ii) acknowledges that, in entering into the Credit Agreement and the other Fundamental Documents to which the Secured Party is a party, the Secured Party is relying upon, among other things, the waivers and certifications contained in this Section 23.

26. Miscellaneous. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon the Grantor and its respective successors and assigns, and shall inure to the benefit of the Secured Party and its successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Grantor acknowledges receipt of a copy of this Agreement.

27. Intercreditor. The terms and conditions of this Agreement are subject to the terms and conditions of the Intercreditor Agreement. In the event of any conflict between the terms and conditions of this Agreement and the terms, conditions and provisions of the Intercreditor Agreement, the terms, conditions and provisions of the Intercreditor Agreement shall control. The rights and remedies of the Secured Party under this Agreement will be subject to the terms, conditions and provisions of the Intercreditor Agreement. Notwithstanding anything to the contrary in this Agreement, prior to the discharge of the First Priority Obligations (as defined in the Intercreditor Agreement), any obligation of the Grantors in this Agreement that requires delivery of Collateral to, possession or control of Collateral with, the pledge, assignment, endorsement or transfer of Collateral to or the registration of Collateral in the name of, the Secured Party shall be deemed complied with and satisfied if such delivery of collateral is made to, such possession or control of Collateral is with, or such Collateral be assigned, endorsed or transferred to or registered in the name of, the Revolving Lender; provided that, notwithstanding the foregoing, nothing contained in this Section shall limit or otherwise adversely effect the grant of a lien on or a security interest in any Collateral under Section 2 of this Agreement. To the extent that any Covenants, representations or warranties set forth in this Agreement are untrue or incorrect solely as a result of the delivery to, or grant of possession or control to, the Revolving Lender in accordance with this Section, such representation or warranty shall not be deemed to be untrue or incorrect for purposes of this Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Grantor has caused this Agreement to be duly executed as of the date first above written.

DEBTOR:

**CROWN MEDIA HOLDINGS, INC.**

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

GUARANTORS:

CROWN MEDIA UNITED STATES, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

CM INTERMEDIARY, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

CITI TEEVEE, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

DOONE CITY PICTURES, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP/CFO

[Signature Page to the Security Agreement]

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ACCEPTED AND AGREED BY

SECURED PARTY:

**HC CROWN CORP.**

By: /s/ Timothy Griffith

Name: Timothy Griffith

Title: Vice President

[Signature Page to the Security Agreement]

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PLEDGE AGREEMENT  
DATED AS OF JUNE 29, 2010  
AMONG  
CROWN MEDIA HOLDINGS, INC.  
AS PLEDGOR  
AND  
HC CROWN CORP.  
AS SECURED PARTY

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## Pledge Agreement

THIS PLEDGE AGREEMENT (this "Agreement"), dated as of June 29, 2010 is entered into between Crown Media Holdings, Inc. a Delaware corporation ("Debtor") each of the Guarantors listed on the signature pages hereto (the "Guarantors" and together with the Debtor each individually a "Pledgor" and collectively the "Pledgors") and HC Crown Corp., a Delaware Corporation ("Secured Party"), with reference to the following:

WHEREAS, the Pledgors and the Secured Party are each a party that certain Security and Pledge Agreement, dated July 27, 2007 (as amended, supplemented or modified from time to time the "2007 Pledge and Security Agreement") by and among the Debtor, the subsidiaries of the Debtor listed as Guarantors on that certain Credit, Security, Guarantee and Pledge Agreement dated as of August 31, 2001, as subsequently amended, among Crown Holdings, the Guarantors named therein, the Lenders named therein and JPMorgan Chase as Agent and Hallmark Cards, Incorporated on behalf of itself and as agent for each of the Secured Party and Hallmark Entertainment Holdings, Inc., and the Debtor and the Secured party wish to, and hereby do, continue and extend the pledge made therein;

WHEREAS, Pledgors and Secured Party are parties to that certain Credit Agreement (as amended, restated, or otherwise modified from time to time, the "Credit Agreement"), of even date herewith, pursuant to which Secured Party has agreed to make certain financial accommodations to Pledgor;

WHEREAS, the Pledgors beneficially own the Equity Interests (as hereinafter defined) in the Issuers (as hereinafter defined);

WHEREAS, to induce Secured Party to make the financial accommodations provided to Pledgors pursuant to the Credit Agreement, Pledgors desire to pledge, grant, transfer, and assign to Secured Party a security interest in the Collateral (as hereinafter defined) to secure the Secured Obligations (as hereinafter defined), as provided herein.

NOW, THEREFORE, in consideration of the mutual promises, covenants, representations, and warranties set forth herein and for other good and valuable consideration, the parties hereto agree as follows:

1. Definitions and Construction.

(a) Definitions.

All initially capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement. As used in this Agreement:

"Bankruptcy Code" means United States Bankruptcy Code (11 U.S.C. Section 101 et seq.), as in effect from time to time, and any successor statute thereto.

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"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banks are authorized or required to close.

"Code" means the Uniform Commercial Code as in effect in the State of New York from time to time.

"Collateral" shall mean the Pledged Interests, the Future Rights, and the Proceeds, collectively.

"Credit Agreement" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Equity Interests" means all securities, shares, units, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company, or similar entity, whether voting or nonvoting, certificated or uncertificated, including general partner partnership interests, limited partner partnership interests, common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934).

"Event of Default" shall have the meaning ascribed thereto in the Credit Agreement.

"Fundamental Documents" shall have the meaning ascribed to it in the Credit Agreement.

"Future Rights" shall mean: (a) all Equity Interests (other than Pledged Interests) of the Issuers, and all securities convertible or exchangeable into, and all warrants, options, or other rights to purchase, Equity Interests of the Issuers; and (b) the certificates or instruments representing such Equity Interests, convertible or exchangeable securities, warrants, and other rights and all dividends, cash, options, warrants, rights, instruments, and other property or proceeds from time to time received, receivable, or otherwise distributed in respect of or in exchange for any or all of such Equity Interests.

"Holder" and "Holders" shall have the meanings ascribed thereto in Section 3 of this Agreement.

"Issuers" shall mean each of the Persons identified as an Issuer on Schedule 1 attached hereto (or any addendum thereto), and any successors thereto, whether by merger or otherwise.

"Lien" shall mean any lien, mortgage, pledge, assignment (including any assignment of rights to receive payments of money), security interest, charge, or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof, or any agreement to give any security interest).

"Pledged Interests" shall mean (a) all Equity Interests of the Issuers identified on Schedule 1; and (b) the certificates or instruments representing such Equity Interests.

"Pledgor" shall have the meaning ascribed thereto in the recitals to this Agreement.

"Proceeds" shall mean all proceeds (including proceeds of proceeds) of the Pledged Interests and Future Rights including all: (a) rights, benefits, distributions, premiums, profits, dividends, interest, cash, instruments, documents of title, accounts, contract rights, inventory, equipment, general intangibles, payment intangibles, deposit accounts, chattel paper, and other property from time to time received, receivable, or otherwise distributed in respect of or in exchange for, or as a replacement of or a substitution for, any of the Pledged Interests, Future Rights, or proceeds thereof (including any cash, Equity Interests, or other securities or instruments issued after any recapitalization, readjustment, reclassification, merger or consolidation with respect to the Issuers and any security entitlements, as defined in Section 8-102(a)(17) of the Code, with respect thereto); (b) "proceeds," as such term is defined in Section 9-102(a)(64) of the Code; (c) proceeds of any insurance, indemnity, warranty, or guaranty (including guaranties of delivery) payable from time to time with respect to any of the Pledged Interests, Future Rights, or proceeds thereof; (d) payments (in any form whatsoever) made or due and payable to any Pledgor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Pledged Interests, Future Rights, or proceeds thereof; and (e) other amounts from time to time paid or payable under or in connection with any of the Pledged Interests, Future Rights, or proceeds thereof.

"Registered Organization" shall have the meaning ascribed thereto in Section 9-102(a)(7) of the Code.

"Secured Obligations" shall mean all liabilities, obligations, or undertakings owing by any Pledgor to Secured Party of any kind or description arising out of or outstanding under, advanced or issued pursuant to, or evidenced by the Credit Agreement, this Agreement, or any other Fundamental Document, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, voluntary or involuntary, whether now existing or hereafter arising, and including all interest (including interest that accrues after the filing of a case under the Bankruptcy Code) and any and all costs, fees (including attorneys fees), and expenses which any Pledgor is required to pay pursuant to any of the foregoing, by law, or otherwise.

"Secured Party" shall have the meaning ascribed thereto in the recitals to this Agreement, together with its successors or assigns.

"Securities Act" shall have the meaning ascribed thereto in Section 9(c) of this Agreement.

(b) Construction.

(i) Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and to the singular include the plural, the part includes the whole, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and other similar terms in this Agreement refer to this Agreement as a whole and not exclusively to any particular provision of this Agreement. Article, section, subsection, exhibit, and schedule references are to this Agreement unless otherwise specified. All of the exhibits or schedules attached to this Agreement shall be deemed incorporated herein by reference. Any reference to any of the following documents includes any and all alterations, amendments,

restatements, extensions, modifications, renewals, or supplements thereto or thereof, as applicable: this Agreement, the Credit Agreement, or any of the other Fundamental Documents.

(ii) Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Secured Party or any Pledgor, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by both of the parties and their respective counsel and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

(iii) In the event of any direct conflict between the express terms and provisions of this Agreement and of the Credit Agreement, the terms and provisions of the Credit Agreement shall control.

## 2. Pledge.

As security for the prompt payment and performance of the Secured Obligations in full by Pledgors when due, whether at stated maturity, by acceleration or otherwise (including amounts that would become due but for the operation of the provisions of the Bankruptcy Code), each Pledgor hereby pledges, grants, transfers, and assigns to Secured Party a security interest in all of such Pledgor's right, title, and interest in and to the Collateral.

## 3. Delivery and Registration of Collateral.

(a) All certificates or instruments representing or evidencing the Collateral shall be promptly delivered by each Pledgor to Secured Party or Secured Party's designee pursuant hereto at a location designated by Secured Party and shall be held by or on behalf of Secured Party pursuant hereto, and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed indorsement certificate in the form attached hereto as Exhibit A or other instrument of transfer or assignment in blank, in form and substance satisfactory to Secured Party.

(b) Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have the right, at any time in its discretion and without notice to any Pledgor, to transfer to or to register on the books of the Issuers (or of any other Person maintaining records with respect to the Collateral) in the name of Secured Party or any of its nominees any or all of the Collateral. In addition, Secured Party shall have the right at any time to exchange certificates or instruments representing or evidencing Collateral for certificates or instruments of smaller or larger denominations.

(c) If, at any time and from time to time, any Collateral (including any certificate or instrument representing or evidencing any Collateral) is in the possession of a Person other than Secured Party or Pledgor (a "Holder"), then Pledgor shall immediately, at Secured Party's option, either cause such Collateral to be delivered into Secured Party's possession, or cause such Holder to enter into a control agreement, in form and substance satisfactory to Secured Party, and take all other steps deemed necessary by Secured Party to perfect the security interest of Secured Party in such Collateral, all pursuant to Sections 9-106 & 9-313 of the Code or other applicable law governing the perfection of Secured Party's security interest in the Collateral in the possession of such Holder.

(d) Any and all Collateral (including dividends, interest, and other cash distributions) at any time received or held by any Pledgor shall be so received or held in trust for Secured Party, shall be segregated from other funds and property of Pledgor and shall be forthwith delivered to Secured Party in the same form as so received or held, with any necessary indorsements; provided that cash dividends or distributions received by Pledgor, may be retained by Pledgor in accordance with Section 4 and used in the ordinary course of Pledgor's business.

(e) If at any time, and from time to time, any Collateral consists of an uncertificated security or a security in book entry form, then Pledgor shall immediately cause such Collateral to be registered or entered, as the case may be, in the name of Secured Party, or otherwise cause Secured Party's security interest thereon to be perfected in accordance with applicable law.

4. Voting Rights and Dividends.

(a) So long as no Event of Default shall have occurred and be continuing, each Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Collateral or any part thereof for any purpose not inconsistent with the terms of the Fundamental Documents and shall be entitled to receive and retain any cash dividends or distributions paid or distributed in respect of the Collateral.

(b) Upon the occurrence and during the continuance of an Event of Default, all rights of each Pledgor to exercise the voting and other consensual rights or receive and retain cash dividends or distributions that it would otherwise be entitled to exercise or receive and retain, as applicable pursuant to Section 4(a), shall cease, and all such rights shall thereupon become vested in Secured Party, who shall thereupon have the sole right to exercise such voting or other consensual rights and to receive and retain such cash dividends and distributions. Pledgors shall execute and deliver (or cause to be executed and delivered) to Secured Party all such proxies and other instruments as Secured Party may reasonably request for the purpose of enabling Secured Party to exercise the voting and other rights which it is entitled to exercise and to receive the dividends and distributions that it is entitled to receive and retain pursuant to the preceding sentence.

5. Representations and Warranties.

Each Pledgor represents, warrants, and covenants as follows:

(a) Pledgor has taken all steps it deems necessary or appropriate to be informed on a continuing basis of changes or potential changes affecting the Collateral (including rights of conversion and exchange, rights to subscribe, payment of dividends, reorganizations or recapitalization, tender offers and voting and registration rights), and Pledgor agrees that Secured Party shall have no responsibility or liability for informing Pledgor of any such changes or potential changes or for taking any action or omitting to take any action with respect thereto.

(b) Pledgor is a Registered Organization, organized under the laws of the state set forth on Schedule 2. Pledgor's type of organization is set forth on Schedule 2.

(c) All information herein or hereafter supplied to Secured Party by or on behalf of Pledgor in writing with respect to the Collateral is, or in the case of information hereafter supplied will be, accurate and complete in all material respects.

(d) Pledgor is and will be the sole legal and beneficial owner of the Collateral of such Pledgor (including the Pledged Interests and all other Collateral acquired by Pledgor after the date hereof) free and clear of any adverse claim, Lien, or other right, title, or interest of any party, other than the Liens in favor of Secured Party.

(e) This Agreement, and the delivery to Secured Party of the Pledged Interests representing Collateral (or the control agreements referred to in Section 3 of this Agreement), creates a valid, perfected, and first priority security interest in one hundred percent (100%) of the Pledged Interests in favor of Secured Party securing payment of the Secured Obligations, and all actions necessary to achieve such perfection have been duly taken.

(f) Schedule 1 to this Agreement is true and correct and complete in all material respects. Without limiting the generality of the foregoing: (i) except as set forth on Schedule 1, all the Pledged Interests are in certificated form, and, except to the extent registered in the name of Secured Party or its nominee pursuant to the provisions of this Agreement, are registered in the name of the Pledgor who owns such Pledged Interests; and (ii) the Pledged Interests as to each of the Issuers constitute at least the percentage of all the fully diluted issued and outstanding Equity Interests of such Issuer as set forth in Schedule 1 to this Agreement.

(g) There are no presently existing Future Rights or Proceeds owned by Pledgor.

(h) The Pledged Interests have been duly authorized and validly issued and are fully paid and nonassessable.

(i) Neither the pledge of the Collateral pursuant to this Agreement nor the extensions of credit represented by the Secured Obligations violates Regulation T, U or X of the Board of Governors of the Federal Reserve System.

6. Further Assurances.

(a) Each Pledgor agrees that from time to time, at the expense of Pledgor, Pledgor will promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or reasonably desirable, or that Secured Party may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Pledgor will: (i) at the request of Secured Party, mark conspicuously each of its records pertaining to the Collateral with a legend, in form and substance reasonably satisfactory to Secured Party, indicating that such Collateral is subject to the security interest granted hereby; (ii) execute any such instruments or notices, as may be necessary or reasonably desirable, or as Secured Party may request, in order to perfect and preserve the first priority security interests granted or purported to be granted hereby; (iii) allow inspection of the Collateral by Secured Party or Persons designated by Secured Party; and (iv) appear in and defend any action or proceeding that may affect Pledgor's title to or Secured Party's security interest in the Collateral.

(b) Each Pledgor hereby authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral. A carbon, photographic, or other reproduction of this Agreement or any financing statement covering

the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) Each Pledgor will furnish to Secured Party, upon the request of Secured Party: (i) a certificate executed by an authorized officer of Pledgor, and dated as of the date of delivery to Secured Party, itemizing in such detail as Secured Party may request, the Collateral which, as of the date of such certificate, has been delivered to Secured Party by Pledgor pursuant to the provisions of this Agreement; and (ii) such statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may request.

7. Covenants of Pledgor.

Each Pledgor shall:

(a) Perform each and every covenant in the Fundamental Documents applicable to such Pledgor;

(b) Neither change its jurisdiction of organization nor cease to be a Registered Organization, in each case, without giving Secured Party at least thirty (30) days prior written notice thereof;

(c) To the extent it may lawfully do so, use its best efforts to prevent the Issuers from issuing Future Rights or Proceeds, except for cash dividends and other distributions to be paid by any Issuer to Pledgor; and

(d) Upon receipt by Pledgor of any material notice, report, or other communication from any of the Issuers or any Holder relating to all or any part of the Collateral, deliver such notice, report or other communication to Secured Party as soon as possible, but in no event later than five (5) days following the receipt thereof by Pledgor.

8. Secured Party as Pledgor's Attorney-in-Fact.

(a) Each Pledgor hereby irrevocably appoints Secured Party as Pledgor's attorney-in-fact, with full authority in the place and stead of Pledgor and in the name of Pledgor, Secured Party or otherwise, from time to time at Secured Party's discretion, to take any action and to execute any instrument that Secured Party may reasonably deem necessary or advisable to accomplish the purposes of this Agreement, including: (i) upon the occurrence and during the continuance of an Event of Default, to receive, indorse, and collect all instruments made payable to Pledgor representing any dividend, interest payment or other distribution in respect of the Collateral or any part thereof to the extent permitted hereunder and to give full discharge for the same and to execute and file governmental notifications and reporting forms; (ii) to enter into any control agreements Secured Party deems necessary pursuant to Section 3 of this Agreement; or (iii) to arrange for the transfer of the Collateral on the books of any of the Issuers or any other Person to the name of Secured Party or to the name of Secured Party's nominee.

(b) In addition to the designation of Secured Party as each Pledgor's attorney-in-fact in subsection (a), each Pledgor hereby irrevocably appoints Secured Party as Pledgor's agent and

attorney-in-fact to make, execute and deliver any and all documents and writings which may be necessary or appropriate for approval of, or be required by, any regulatory authority located in any city, county, state or country where Pledgor or any of the Issuers engage in business, in order to transfer or to more effectively transfer any of the Pledged Interests or otherwise enforce Secured Party's rights hereunder.

9. Remedies upon Default.

Upon the occurrence and during the continuance of an Event of Default:

(a) Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Code (irrespective of whether the Code applies to the affected items of Collateral), and Secured Party may also without notice (except as specified below) sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of Secured Party's offices or elsewhere, for cash, on credit or for future delivery, at such time or times and at such price or prices and upon such other terms as Secured Party may deem commercially reasonable, irrespective of the impact of any such sales on the market price of the Collateral. To the maximum extent permitted by applicable law, Secured Party may be the purchaser of any or all of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply all or any part of the Secured Obligations as a credit on account of the purchase price of any Collateral payable at such sale. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right on the part of any Pledgor, and each Pledgor hereby waives (to the extent permitted by law) all rights of redemption, stay, or appraisal that it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Each Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten (10) calendar days notice to Pledgor of the time and place of any public sale or the time after which a private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefore, and such sale may, without further notice, be made at the time and place to which it was so adjourned. To the maximum extent permitted by law, each Pledgor hereby waives any claims against Secured Party arising because the price at which any Collateral may have been sold at such a private sale was less than the price that might have been obtained at a public sale, even if Secured Party accepts the first offer received and does not offer such Collateral to more than one offeree.

(b) Each Pledgor hereby agrees that any sale or other disposition of the Collateral conducted in conformity with reasonable commercial practices of banks, insurance companies, or other financial institutions in the city and state where Secured Party is located in disposing of property similar to the Collateral shall be deemed to be commercially reasonable.

(c) Each Pledgor hereby acknowledges that the sale by Secured Party of any Collateral pursuant to the terms hereof in compliance with the Securities Act of 1933 as now in effect or as hereafter amended, or any similar statute hereafter adopted with similar purpose or effect (the "Securities Act"), as well as applicable "Blue Sky" or other state securities laws, may require strict

limitations as to the manner in which Secured Party or any subsequent transferee of the Collateral may dispose thereof. Each Pledgor acknowledges and agrees that in order to protect Secured Party's interest it may be necessary to sell the Collateral at a price less than the maximum price attainable if a sale were delayed or were made in another manner, such as a public offering under the Securities Act. No Pledgor has any objection to sale in such a manner and agrees that Secured Party shall have no obligation to obtain the maximum possible price for the Collateral. Without limiting the generality of the foregoing, each Pledgor agrees that, upon the occurrence and during the continuation of an Event of Default, Secured Party may, subject to applicable law, from time to time attempt to sell all or any part of the Collateral by a private placement, restricting the bidders and prospective purchasers to those who will represent and agree that they are purchasing for investment only and not for distribution. In so doing, Secured Party may solicit offers to buy the Collateral or any part thereof for cash, from a limited number of investors reasonably believed by Secured Party to be institutional investors or other accredited investors who might be interested in purchasing the Collateral. If Secured Party shall solicit such offers, then the acceptance by Secured Party of one of the offers shall be deemed to be a commercially reasonable method of disposition of the Collateral.

(d) If Secured Party shall determine to exercise its right to sell all or any portion of the Collateral pursuant to this Section, each Pledgor agrees that, upon request of Secured Party, Pledgor will, at its own expense:

(i) use its best efforts to execute and deliver, and cause the Issuers and the directors and officers thereof to execute and deliver, all such instruments and documents, and to do or cause to be done all such other acts and things, as may be necessary or, in the opinion of Secured Party, advisable to register such Collateral under the provisions of the Securities Act, and to cause the registration statement relating thereto to become effective and to remain effective for such period as prospectuses are required by law to be furnished, and to make all amendments and supplements thereto and to the related prospectuses which, in the opinion of Secured Party, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto;

(ii) use its best efforts to qualify the Collateral under the state securities laws or "Blue Sky" laws and to obtain all necessary governmental approvals for the sale of the Collateral, as requested by Secured Party;

(iii) cause the Issuers to make available to their respective security holders, as soon as practicable, an earnings statement which will satisfy the provisions of Section 11 (a) of the Securities Act;

(iv) execute and deliver, or cause the officers and directors of the Issuers to execute and deliver, to any person, entity or governmental authority as Secured Party may choose, any and all documents and writings which, in Secured Party's reasonable judgment, may be necessary or appropriate for approval, or be required by, any regulatory authority located in any city, county, state or country where Pledgor or the Issuers engage in business, in order to transfer or to more effectively transfer the Pledged Interests or otherwise enforce Secured Party's rights hereunder; and

(v) do or cause to be done all such other acts and things as may be necessary to make such sale of the Collateral or any part thereof valid and binding and in compliance with applicable law.

Each Pledgor acknowledges that there is no adequate remedy at law for failure by it to comply with the provisions of this Section and that such failure would not be adequately compensable in damages, and therefore agrees that its agreements contained in this Section may be specifically enforced.

(e) EACH PLEDGOR EXPRESSLY WAIVES TO THE MAXIMUM EXTENT PERMITTED BY LAW: (i) ANY CONSTITUTIONAL OR OTHER RIGHT TO A JUDICIAL HEARING PRIOR TO THE TIME SECURED PARTY DISPOSES OF ALL OR ANY PART OF THE COLLATERAL AS PROVIDED IN THIS SECTION; (ii) ALL RIGHTS OF REDEMPTION, STAY, OR APPRAISAL THAT IT NOW HAS OR MAY AT ANY TIME IN THE FUTURE HAVE UNDER ANY RULE OF LAW OR STATUTE NOW EXISTING OR HEREAFTER ENACTED; AND (iii) EXCEPT AS SET FORTH IN SUBSECTION (a) OF THIS Section 9, ANY REQUIREMENT OF NOTICE, DEMAND, OR ADVERTISEMENT FOR SALE.

10. Application of Proceeds.

Upon the occurrence and during the continuance of an Event of Default, any cash held by Secured Party as Collateral and all cash Proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral pursuant to the exercise by Secured Party of its remedies as a secured creditor as provided in Section 9 shall be applied from time to time by Secured Party as provided in the Credit Agreement.

11. Indemnity and Expenses.

Each Pledgor jointly and severally agrees:

(a) To indemnify and hold harmless Secured Party and each of its directors, officers, employees, agents and affiliates from and against any and all claims, damages, demands, losses, obligations, judgments and liabilities (including, without limitation, reasonable attorneys' fees and expenses) in any way arising out of or in connection with this Agreement or the Secured Obligations, except to the extent the same shall arise as a result of the gross negligence or willful misconduct of the party seeking to be indemnified; and

(b) To pay and reimburse Secured Party upon demand for all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) that Secured Party may incur in connection with (i) the custody, use or preservation of, or the sale of, collection from or other realization upon, any of the Collateral, including the reasonable expenses of re-taking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, (ii) the exercise or enforcement of any rights or remedies granted hereunder, under the Credit Agreement, or under any of the other Fundamental Documents or otherwise available to it (whether at law, in equity or otherwise), or (iii) the failure by any Pledgor to perform or observe any of the provisions hereof. The provisions of this Section shall survive the execution and delivery of this Agreement, the repayment of any of the Secured Obligations, the termination of the commitments

of Secured Party under the Credit Agreement and the termination of this Agreement or any other Fundamental Document.

12. Duties of Secured Party.

The powers conferred on Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose on it any duty to exercise such powers. Except as provided in Section 9-207 of the Code, Secured Party shall have no duty with respect to the Collateral or any responsibility for taking any necessary steps to preserve rights against any Persons with respect to any Collateral.

13. Choice of Law and Venue; Submission to Jurisdiction; Service of Process.

(a) THE VALIDITY OF THIS AGREEMENT, ITS CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT, AND THE RIGHTS OF THE PARTIES HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REFERENCE TO THE CHOICE OF LAW PRINCIPLES THEREOF). THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED IN ANY OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY, THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, THE COURTS OF THE STATE OF DELAWARE SITTING IN NEW CASTLE COUNTY DELAWARE OR OF THE UNITED STATES DISTRICT COURT OF THE DISTRICT OF DELAWARE, AND ANY APPELLATE COURT FROM ANY THEREOF.

(b) EACH PLEDGOR HEREBY SUBMITS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION.

(c) EACH PLEDGOR HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT, OR OTHER PROCESS ISSUED IN ANY ACTION OR PROCEEDING AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINT, OR OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO PLEDGOR AT ITS ADDRESS FOR NOTICES IN ACCORDANCE WITH THIS AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF PLEDGOR'S ACTUAL RECEIPT THEREOF OR THREE DAYS AFTER DEPOSIT IN THE UNITED STATES MAELS, PROPER POSTAGE PREPAID.

(d) NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO AFFECT THE RIGHT OF SECURED PARTY TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW, OR TO PRECLUDE THE ENFORCEMENT BY SECURED PARTY OF ANY JUDGMENT OR ORDER OBTAINED IN SUCH FORUM OR THE TAKING

OF ANY ACTION UNDER THIS AGREEMENT TO ENFORCE SAME IN ANY OTHER APPROPRIATE FORUM OR JURISDICTION.

14. Amendments; etc.

No amendment or waiver of any provision of this Agreement nor consent to any departure by any Pledgor herefrom shall in any event be effective unless the same shall be in writing and signed by the Debtor and the Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of Secured Party to exercise, and no delay in exercising any right under this Agreement, any other Fundamental Document, or otherwise with respect to any of the Secured Obligations, shall operate as a waiver thereof; nor shall any single or partial exercise of any right under this Agreement, any other Fundamental Document, or otherwise with respect to any of the Secured Obligations preclude any other or further exercise thereof or the exercise of any other right. The remedies provided for in this Agreement or otherwise with respect to any of the Secured Obligations are cumulative and not exclusive of any remedies provided by law.

15. Notices.

Unless otherwise specifically provided herein, all notices shall be in writing addressed to the respective party as set forth below: and may be personally served, faxed, telecopied or sent by overnight courier service or United States mail:

If to any Pledgor:

Crown Media Holdings, Inc.  
12700 Ventura Blvd.  
Studio City, California 91604  
Attention: William J. Abbott

If to Secured Party:

Hallmark Cards, Inc.  
2501 McGee, Mail Drop 342  
Kansas City, MO 64108  
Attention: Tim Griffith

with a copy to:

Willkie Farr & Gallagher LL  
787 Seventh Avenue

New York, New York 10019

Attention: Maurice M. Lefkort

Any notice given pursuant to this section shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by fax, on the date of transmission if transmitted on a Business Day before 4:00 p.m. at the place of receipt or, if not, on the next succeeding Business Day; (c) if delivered by overnight courier, two (2) days after delivery to such courier properly addressed; or (d) if by United States mail, four (4) Business Days after depositing in the United States mail, with postage prepaid and properly addressed. Any party hereto may change the address or fax number at which it is to receive notices hereunder by notice to the other party in writing in the foregoing manner.

16. Continuing Security Interest.

This Agreement shall create a continuing security interest in the Collateral and shall: (a) remain in full force and effect until the indefeasible payment in full of the Secured Obligations and the full and final termination of any commitment to extend any financial accommodations under the Credit Agreement; (b) be binding upon each Pledgor and its successors and assigns; and (c) inure to the benefit of Secured Party and its successors, transferees, and assigns. Upon the indefeasible payment in full of the Secured Obligations and the full and final termination of any commitment to extend any financial accommodations under the Credit Agreement, the security interests granted herein shall automatically terminate and all rights to the Collateral shall revert to Pledgor. Upon any such termination, Secured Party will, at Pledgor's expense, execute and deliver to Pledgor such documents as Pledgor shall reasonably request to evidence such termination. Such documents shall be prepared by Pledgor and shall be in form and substance reasonably satisfactory to Secured Party.

17. Security Interest Absolute.

To the maximum extent permitted by law, all rights of Secured Party, all security interests hereunder, and all obligations of each Pledgor hereunder, shall be absolute and unconditional irrespective of:

- (a) any lack of validity or enforceability of any of the Secured Obligations or any other agreement or instrument relating thereto, including any of the Fundamental Documents;
- (b) any change in the time, manner, or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from any of the Fundamental Documents, or any other agreement or instrument relating thereto;
- (c) any exchange, release, or non-perfection of any other collateral, or any release or amendment or waiver of or consent to departure from any guaranty for all or any of the Secured Obligations; or
- (d) any other circumstances that might otherwise constitute a defense available to, or a discharge of, any Pledgor.

18. Headings.

Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement or be given any substantive effect.

19. Severability.

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

20. Counterparts; Telefacsimile Execution.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, or binding effect hereof.

21. Waiver of Marshaling.

Each of Pledgor and Secured Party acknowledges and agrees that in exercising any rights under or with respect to the Collateral: (a) Secured Party is under no obligation to marshal any Collateral; (b) may, in its absolute discretion, realize upon the Collateral in any order and in any manner it so elects; and (c) may, in its absolute discretion, apply the proceeds of any or all of the Collateral to the Secured Obligations in any order and in any manner it so elects. Each Pledgor and Secured Party waive any right to require the marshaling of any of the Collateral.

22. Waiver of Jury Trial.

EACH OF PLEDGOR AND SECURED PARTY HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH OF PLEDGOR AND SECURED PARTY REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

23. Intercreditor

The terms and conditions of this Agreement are subject to the terms and conditions of the Intercreditor Agreement. In the event of any conflict between the terms and conditions of this

Agreement and the terms, conditions and provisions of the Intercreditor Agreement, the terms, conditions and provisions of the Intercreditor Agreement shall control. The rights and remedies of the Secured Party under this Agreement will be subject to the terms, conditions and provisions of the Intercreditor Agreement. Notwithstanding anything to the contrary in this Agreement, prior to the discharge of the First Priority Obligations (as defined in the Intercreditor Agreement), any obligation of the Pledgors in this Agreement that requires delivery of Collateral to, possession or control of Collateral with, the pledge, assignment, endorsement or transfer of Collateral to or the registration of Collateral in the name of, the Secured Party shall be deemed complied with and satisfied if such delivery of collateral is made to, such possession or control of Collateral is with, or such Collateral be assigned, endorsed or transferred to or registered in the name of, the Revolving Lender; provided that, notwithstanding the foregoing, nothing contained in this Section shall limit or otherwise adversely effect the pledge of any Collateral under Section 2 of this Agreement. To the extent that any covenants, representations or warranties set forth in this Agreement are untrue or incorrect solely as a result of the delivery to, or grant of possession or control to, the Revolving Lender in accordance with this Section, such representation or warranty shall not be deemed to be untrue or incorrect for purposes of this Agreement.

[Signature page to follow.]

IN WITNESS WHEREOF, each of the Pledgors and Secured Party have caused this Agreement to be duly executed and delivered by their officers thereunto duly authorized as of the date first written above.

DEBTOR:

**CROWN MEDIA HOLDINGS, INC.**

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP / CFO

GUARANTORS:

CROWN MEDIA UNITED STATES, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP / CFO

CM INTERMEDIARY, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP / CFO

CITI TEEVEE, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP / CFO

DOONE CITY PICTURES, LLC

By: /s/ Brian Stewart

Name: Brian Stewart

Title: EVP / CFO

[Signature Page to Pledge Agreement]

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SECURED PARTY:

**HC CROWN CORP.**

By: /s/ Timothy Griffith

Name: Timothy Griffith

Title: Vice President

[Signature Page to the Pledge Agreement]

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**TRADEMARK LICENSE EXTENSION AGREEMENT**

This Extension Agreement dated as of June 29, 2010 is by and between Hallmark Licensing, Inc. ("Hallmark Licensing") and Crown Media United States, LLC ("Crown US").

WHEREAS, Crown US and Hallmark Licensing have previously entered into that certain Amended and Restated Trademark License Agreement between the parties dated as of March 27, 2001 as extended on November 30, 2002, as of August 28, 2003, as of August 1, 2004, as of August 1, 2005, as of April 10, 2006, as of August 1, 2007, as of August 1, 2008, and as of August 15, 2009 (the "License Agreement"); and

WHEREAS, the parties desire to further extend the term of the License Agreement;

NOW, THEREFORE, Crown US and Hallmark Licensing hereby agree as follows:

The term of the License Agreement shall be extended for an additional period terminating on September 1, 2011, subject to any earlier termination pursuant to the terms of the License Agreement.

All other terms and conditions of the License Agreement will remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Extension Agreement as of the date set forth above.

HALLMARK LICENSING, INC.

By: /s/ Brian Gardner

Title: Vice President

CROWN MEDIA UNITED STATES, LLC

By: /s/ Charles Stanford

Title: Vice President

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**TRADEMARK LICENSE EXTENSION AGREEMENT**

This Extension Agreement dated as of June 29, 2010 is by and between Hallmark Licensing, Inc. ("Hallmark Licensing") and Crown Media United States, LLC ("Crown US").

WHEREAS, Crown US and Hallmark Licensing have previously entered into that certain Movie Channel Trademark License Agreement between the parties dated as of January 1, 2004, as extended as of August 1, 2004, as of August 1, 2005, as of April 10, 2006, as of August 1, 2007, as of August 1, 2008, and as of August 15, 2009 (the "License Agreement"); and

WHEREAS, the parties desire to further extend the term of the License Agreement;

NOW, THEREFORE, Crown US and Hallmark Licensing hereby agree as follows:

The term of the License Agreement shall be extended for an additional period terminating on September 1, 2011, subject to any earlier termination pursuant to the terms of the License Agreement.

All other terms and conditions of the License Agreement will remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Extension Agreement as of the date set forth above.

HALLMARK LICENSING, INC.

By: /s/ Brian Gardner

Title: Vice President

CROWN MEDIA UNITED STATES, LLC

By: /s/ Charles Stanford

Title: Vice President

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## CERTIFICATION

I, William J. Abbott, certify that:

1. I have reviewed this 10-Q Report for the quarter ended June 30, 2010, of Crown Media Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 12, 2010

/s/ WILLIAM J. ABBOTT

William J. Abbott

President and Chief Executive Officer

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## CERTIFICATION

I, Brian C. Stewart, certify that:

1. I have reviewed this 10-Q Report for the quarter ended June 30, 2010, of Crown Media Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Dated: August 12, 2010

/s/ BRIAN C. STEWART

Brian C. Stewart

Chief Financial Officer

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**CERTIFICATION OF 10-Q REPORT  
OF  
CROWN MEDIA HOLDINGS, INC.**

**FOR THE QUARTER ENDED JUNE 30, 2010**

1. The undersigned are the Chief Executive Officer and the Chief Financial Officer of Crown Media Holdings, Inc. ("Crown Media Holdings"). This Certification is made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This Certification accompanies the 10-Q Report of Crown Media Holdings for the quarter ended June 30, 2010.
2. We certify to our knowledge that such 10-Q Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of Crown Media Holdings.

This Certification is executed as of August 12, 2010.

/s/ WILLIAM J. ABBOTT

William J. Abbott, President and  
Chief Executive Officer

/s/ BRIAN C. STEWART

Brian C. Stewart, Chief Financial Officer

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