

CROWN MEDIA HOLDINGS INC

FORM 10-Q (Quarterly Report)

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Address	12700 VENTURA BOULEVARD STUDIO CITY, CA 91604
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Industry	Broadcasting & Cable TV
Sector	Services
Fiscal Year	12/31

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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 May 2, 2011, 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” or 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 term “Preferred Stock” refers to our Series A Convertible Preferred Stock.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

**CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)**

	<u>As of December 31, 2010</u>	<u>As of March 31, 2011</u>
ASSETS		
Cash and cash equivalents	\$ 30,565	\$ 14,518
Accounts receivable, less allowance for doubtful accounts of \$141 and \$324, respectively	77,684	71,955
Program license fees	99,574	104,545
Deferred tax asset - net	—	3,300
Prepaid program license fees	4,099	16,205
Prepaid and other assets	2,367	1,974
Total current assets	<u>214,289</u>	<u>212,497</u>
Program license fees	136,503	155,906
Property and equipment, net	12,701	12,177
Goodwill	314,033	314,033
Deferred tax asset - net	—	40,900
Prepaid and other assets	1,008	1,460
Total assets	<u>\$ 678,534</u>	<u>\$ 736,973</u>

CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(continued)

	<u>As of December 31, 2010</u>	<u>As of March 31, 2011</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 27,835	\$ 27,243
Audience deficiency reserve liability	26,954	24,028
License fees payable	104,286	110,106
Payables to Hallmark Cards affiliates	1,005	7,311
Notes payable to HCC	38,174	30,952
Total current liabilities	<u>198,254</u>	<u>199,640</u>
Accrued liabilities	18,972	18,852
License fees payable	33,818	47,291
Notes payable to HCC	379,521	370,396
Total liabilities	<u>630,565</u>	<u>636,179</u>
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK, \$.01 par value; \$1,000 liquidation preference;		
1,000,000 shares authorized; 185,000 shares issued and outstanding as of December 31, 2010, and March 31, 2011, respectively	198,934	199,732
STOCKHOLDERS' DEFICIT:		
Class A common stock, \$.01 par value; 500,000,000 shares authorized; 359,675,936 shares issued and outstanding as of December 31, 2010, and March 31, 2011, respectively	3,597	3,597
Paid-in capital	1,991,157	1,986,272
Accumulated deficit	<u>(2,145,719)</u>	<u>(2,088,807)</u>
Total stockholders' deficit	<u>(150,965)</u>	<u>(98,938)</u>
Total liabilities and stockholders' deficit	<u>\$ 678,534</u>	<u>\$ 736,973</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2011
Revenue:		
Subscriber fees	\$ 16,994	\$ 17,749
Advertising	51,246	55,604
Advertising by Hallmark Cards	64	130
Other revenue	74	112
Total revenue, net	<u>68,378</u>	<u>73,595</u>
Cost of Services:		
Programming costs		
Hallmark Cards affiliate	427	381
Non-affiliates	28,730	31,726
Other costs of services	2,697	2,952
Total cost of services	<u>31,854</u>	<u>35,059</u>
Selling, general and administrative expense (exclusive of depreciation and amortization expense shown separately below)	12,028	15,736
Marketing expense	973	350
Depreciation and amortization expense	383	385
Income from operations	<u>23,140</u>	<u>22,065</u>
Interest income	18	—
Interest expense	(25,482)	(1,795)
(Loss) income before income tax expense	<u>(2,324)</u>	<u>20,270</u>
Income tax benefit	—	43,827
Net (loss) income and comprehensive (loss) income	<u>(2,324)</u>	<u>64,097</u>
Income allocable to Preferred Stockholder	—	(16,594)
Net (loss) income attributable to common stockholders	<u>\$ (2,324)</u>	<u>\$ 47,503</u>
Weighted average number of common shares outstanding, basic and diluted	104,788	359,676
Net (loss) income per common share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ 0.13</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (2,324)	\$ 64,097
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	30,441	30,358
Accretion on company obligated mandatorily redeemable preferred interest	572	—
Provision for allowance for doubtful accounts	26	172
Loss on sale of fixed asset	2	—
Income tax benefit	—	(43,827)
Stock-based compensation	76	40
Changes in operating assets and liabilities:		
Decrease in accounts receivable	4,751	5,557
Additions to program license fees	(16,902)	(53,760)
Increase in prepaid and other assets	(14,058)	(12,556)
Increase (decrease) in accounts payable, accrued and other liabilities	1,347	(3,179)
Increase (decrease) in interest payable	18,921	(62)
(Decrease) increase in license fees payable	(15,131)	21,841
Increase (decrease) in payables to affiliates	50	(1,499)
Net cash provided by operating activities	<u>7,771</u>	<u>7,182</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(426)	(240)
Accretion on amounts payable to buyer of international business	29	—
Net cash used in investing activities	<u>(397)</u>	<u>(240)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable to HCC	—	(16,347)
Principal payments on the credit facility	(1,000)	—
Dividends paid to Preferred Stockholder	—	(6,386)
Principal payments on capital lease obligations	(215)	(256)
Net cash used in financing activities	<u>(1,215)</u>	<u>(22,989)</u>
Net increase (decrease) in cash and cash equivalents	6,159	(16,047)
Cash and cash equivalents, beginning of period	10,456	30,565
Cash and cash equivalents, end of period	<u>\$ 16,615</u>	<u>\$ 14,518</u>
Supplemental disclosure of cash and non-cash activities:		
Interest paid	\$ 5,354	\$ 1,258
Reduction of additional paid-in capital for obligation under tax sharing agreement	\$ 4,699	\$ 4,885

See accompanying notes to unaudited condensed consolidated financial statements.

CROWN MEDIA HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2010 and 2011

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 29, 2010, following the recapitalization of the Company as described below, the significant investor in the Company was H C Crown, LLC (“HCC”), a subsidiary of Hallmark Cards, Incorporated (“Hallmark Cards”).

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

Liquidity

As of March 31, 2011, the Company had \$14.5 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 a series of recapitalization transactions consummated June 29, 2010 (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 March 31, 2012, will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, residuals and participations of \$10.5 million, and principal and interest of approximately \$30.0 million to \$35.0 million. Subject to the legal availability of funds and approval by the Company’s board of directors, the Company may also pay approximately \$26.8 million for cash dividends on Preferred Stock through March 31, 2012; at the option of the Company’s board of directors, such dividends may be paid in the form of additional shares of Preferred Stock. The Company believes that cash on hand, cash generated by operations, and borrowing availability under its bank credit facility through June 30, 2011, will be sufficient to fund the Company’s operations and enable the Company to meet its liquidity needs through March 31, 2012.

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 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 audited consolidated financial statements and the notes to those statements, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

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.

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 revenue and expenses. Such estimates include the collectibility 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 and valuation allowance, 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 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, if any, in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon the Company's assessment of probable loss related to uncollectible accounts receivable. The Company uses a number of factors in determining the allowance, including, among other things, collection trends. The Company's bad debt expense was \$26,000 and \$172,000 for the three months ended March 31, 2010 and 2011, 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. We 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. Significant balance sheet items which are subject to non-recurring fair value measurements consist of impairment valuations of goodwill and property and equipment. In the course of recording the Company's June 2010 troubled debt restructuring, the Company estimated the fair values of its preferred and common stock issued in the Recapitalization. The standard did not have a significant impact on the determination of fair value related to non-financial assets and non-financial liabilities in 2011.

Net Income (Loss) per Share

Basic net income (loss) per share for each period is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net

income (loss) per share for each period is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares plus potentially dilutive common shares outstanding except whenever any such effect would be antidilutive. Potential common shares consist of incremental common shares issuable upon the exercise of stock options and common shares issuable upon conversion of the preferred stock. Approximately 86,000 and 40,000 stock options for the three months ended March 31, 2010 and 2011, respectively, and 71.2 million shares upon the conversion of the preferred stock for the three months ended March 31, 2011, have been excluded from the determination of diluted net income or loss per share because the individual effect in each instance was antidilutive.

Net income attributable to common stockholders reflects allocations in favor of preferred stockholders for (i) imputed preferred stock dividends for financial reporting purposes of \$799,000, (ii) cumulative preferred stock dividends of \$6.4 million and (iii) the potential participation in common stock dividends (equivalent to approximately 71.2 million shares of common stock) of \$9.4 million.

Concentration of Risk

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

Five and four of our distributors each accounted for more than 10% of our consolidated subscriber revenue for both the three months ended March 31, 2010 and 2011, and together accounted for a total of 73% and 74% of consolidated subscriber revenue during the three months ended March 31, 2010 and 2011, respectively. Three of our distributors each accounted for approximately 15% or more of our consolidated subscribers for the three months ended March 31, 2010 and 2011, respectively, and together accounted for 60% and 61% of our subscribers during the three months ended March 31, 2010 and 2011, respectively.

Four and five of our programming content providers each accounted for more than 10% of our total license fee programming for both the three months ended March 31, 2010 and 2011, and together accounted for a total of 74% and 62% of the consolidated programming liability, respectively.

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 nor third-party evidence is available. The adoption of this guidance on January 1, 2011, did not have a material impact on our consolidated 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 adoption of this guidance did not have a material impact on our consolidated financial statements.

On January 1, 2011, the Company adopted changes issued by the FASB regarding the testing of goodwill for impairment. These changes require an entity to perform all steps in the test for a reporting unit whose carrying value is zero or negative if it is more likely than not (more than 50%) that a goodwill impairment exists based on qualitative factors. This will result in the elimination of an entity's ability to assert that such a reporting unit's goodwill is not impaired and additional testing is not necessary despite the existence of qualitative factors that

indicate otherwise. Based on the most recent impairment review of the Company's goodwill (November 2010), the adoption of these changes had no impact on our consolidated financial statements.

3. Program License Fees

Program license fees are comprised of the following:

	As of December 31, 2010	As of March 31, 2011
	(In thousands)	
Program license fees — non-affiliates	\$ 552,869	\$ 589,661
Program license fees — Hallmark Cards affiliates	15,000	15,200
Program license fees, at cost	567,869	604,861
Accumulated amortization	(331,792)	(344,410)
Program license fees, net	<u>\$ 236,077</u>	<u>\$ 260,451</u>

At December 31, 2010, and March 31, 2011, \$4.1 million and \$16.2 million, respectively, of program license fees were included in prepaid and other assets on the accompanying condensed consolidated balance sheets. The various license periods associated with such amounts had not commenced as of the respective balance sheet dates.

License fees payable are comprised of the following:

	As of December 31, 2010	As of March 31, 2011
	(In thousands)	
License fees payable — non-affiliates	\$ 126,375	\$ 145,846
License fees payable — Hallmark Cards affiliates	11,729	11,551
Total license fees payable	138,104	157,397
Less current maturities	(104,286)	(110,106)
Long-term license fees payable	<u>\$ 33,818</u>	<u>\$ 47,291</u>

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 months ended March 31, 2011.

Under certain license agreements with RHI Entertainment Distribution, LLC ("RHIED") the Company is obligated to pay \$5.3 million through December 1, 2013. In connection with its reorganization in bankruptcy, RHIED assigned its right to receive these license payments to Hallmark Cards. During the three months ended March 31, 2011 the Company reclassified \$2.5 million from license fees payable (to non-affiliates) to payables to Hallmark Cards affiliates. During the same period the Company remitted payment of \$1.3 million to Hallmark Cards. Therefore, at March 31, 2011, the payable to Hallmark Cards affiliates includes \$1.2 million related to this assignment. The remaining \$2.8 million relates to license periods that have not commenced as of March 31, 2011; accordingly, such amount is not reflected in the accompanying condensed consolidated balance sheet. See Commitments and Contingencies below.

4. Credit Facility

In connection with the Recapitalization, the Company entered into Amendment No. 17 to the Company's amended credit agreement with JP Morgan Chase Bank, effective June 29, 2010. Amendment No. 17, among other things, extended the maturity date of the credit facility June 30, 2011.

Amendment No. 17 terminated the Hallmark Cards Subordination and Support Agreement. The Hallmark Cards Facility Guarantee remains in place. A related intercreditor agreement among HCC, JP Morgan Chase Bank and the

Company, 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 plus 2.25% in the case of a Eurodollar Loan and the Alternate Base Rate plus 1.25% in the case of an Alternate Base Rate Loan (with each named rate and loan as defined in Amendment No. 17). The Company's ability to borrow additional amounts under the credit facility is not otherwise limited or restricted.

The credit facility, as amended, contains a number of affirmative and negative covenants. The Company was in compliance with these covenants as of March 31, 2011.

At December 31, 2010, and March 31, 2011, the Company did not have outstanding borrowings under the credit facility and there were no letters of credit outstanding. Interest expense on borrowings under the credit facility for each of the three months ended March 31, 2010 and 2011, was \$4,000 and \$0, respectively.

5. Related Party Long-Term Obligations

Related Party Long-Term Obligations

The aggregate maturities of nominal 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 March 31, 2011, are as follows:

	Payments Due by Period					
	Total	Less than 1 Year	2 Years	3 Years	4 Years	5 Years
	(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	\$ 250,144	\$ 19,341	\$ 22,839	\$ 207,964	\$ —	\$ —
Term B note, due December 31, 2013, interest payable quarterly to HCC at 11.5% per annum through December 31, 2011 and 14% thereafter	157,164	13,967	16,067	127,130	—	—
	<u>\$ 407,308</u>	<u>\$ 33,308</u>	<u>\$ 38,906</u>	<u>\$ 335,094</u>	<u>\$ —</u>	<u>\$ —</u>

The Company paid principal of \$16.3 million and interest of \$828,000 during the three months ended March 31, 2011, on the Term A and Term B notes.

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. The Company's obligations under this note, including \$797.4 million of principal and accrued interest, 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. During 2010 the Company paid \$4.3 million for interest. The Company's obligations under this note, including \$108.6 million of principal, 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. During 2010 the Company paid

\$6.8 million for interest. The Company's obligations under this note, including \$170.1 of principal, 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. During 2010 the Company paid \$2.5 million for interest. The Company's obligations under this note, including \$62.0 million of principal, were terminated in connection with the Recapitalization.

Hallmark Guarantee; Interest and Fee Reductions

Hallmark Cards has unconditionally guaranteed the Company's obligations to JPMorgan Chase Bank under the credit facility. Payments, if any, under this guarantee will not reduce the Company's obligations under the credit facility but instead will convey to Hallmark Cards a subordinated participation interest in the Company's obligations under the credit facility. Hallmark Cards also has an option to purchase the lender's entire interest in the credit facility.

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. The Company pays Hallmark Cards a reduction amount of the interest rate and commitment fees equal to 0.75% and 0.125%, respectively. Interest expense paid to HCC in connection with the JPMorgan Chase Bank credit facility was \$1,000 and \$0 for the three months ended March 31, 2010 and 2011, respectively. Commitment fee expense for three months ended March 31, 2010 and 2011, was \$15,000 and \$9,000, respectively.

6. Related Party Transactions

Tax Sharing Agreement

On March 11, 2003, the Company 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 the Company 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 the Company. Based on the original tax sharing agreement, Hallmark Cards agreed to pay the Company all of the benefits realized by Hallmark Cards as a result of including the Company in its consolidated income tax return. Also, taxable income recognized by the Company that is included in the Hallmark Cards consolidated tax return will result in a payment by the Company to Hallmark Cards.

On a quarterly basis through December 31, 2009, Hallmark Cards paid the Company cash for 75% of the estimated benefit from losses with the balance applied as an offset against other amounts owed by the Company 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 part of the Recapitalization, the tax agreement was amended to provide that 100% of any such benefit will be deferred for application against future tax liabilities of the Company. Pursuant to the August 2003 amendment to the tax sharing agreement, the benefit that would otherwise have resulted from interest accrued on the 10.25% senior secured note was not available to the Company until such interest was 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.

At December 31, 2009, 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. For the year ended December 31, 2010, the Company owed Hallmark Cards \$12.9 million for tax as calculated pursuant to the amended tax sharing agreement and this amount was paid to Hallmark Cards in December 2010. The Company owes Hallmark Cards \$5.1 million under the federal tax sharing agreement for the first quarter of 2011 which was paid in April 2011.

Any payments received from Hallmark Cards or credited against amounts owed by the Company 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. Any amounts owed or payments made to Hallmark Cards or to any member of the Hallmark Cards consolidated group under the tax sharing agreement in excess of current tax expense have been recorded as reductions to paid-in capital.

Since May 9, 2000, the Company has been included in certain combined state income tax returns of Hallmark Cards or Hallmark Entertainment Holdings. Consequently, Hallmark Entertainment Holdings and the Company entered into a state tax sharing agreement. Under the state tax sharing agreement, Hallmark Entertainment Holdings and the Company file consolidated, combined or unitary state tax returns. The Company makes tax-sharing payments to (or receives payments from) Hallmark Entertainment Holdings equal to the taxes (or tax refunds) that the Company would pay (or receive) if it filed on a stand-alone basis. Such payments are computed based on the Company's taxable income (loss) and other tax items beginning the day following the May 9, 2000, reorganization. Hallmark Cards has agreed to waive the state tax liability associated with the cancellation of debt income in those states in which Hallmark Cards files a combined return. Accordingly, the Company has reduced the liability for the state taxes and credited paid-in capital for that amount. As of March 31, 2011, it is estimated that the Company will owe Hallmark Cards approximately \$900,000 with respect to the state tax sharing payment. This amount will be payable two days prior to the due date of the state tax returns.

Release of Valuation Allowance

The Company had established a deferred tax asset of \$610.2 million as of December 31, 2010, and had recorded a full valuation allowance against it. Based on its recent earnings history, the Company is no longer in a cumulative loss position for the thirty-six months ended March 31, 2011. After evaluating positive and negative evidence available as of the reporting date, the Company has determined that it is more likely than not that it will utilize a portion of its tax loss carry forwards, as if separate returns were filed. Consistent with ASC 740, the following sources of taxable income may be available under the tax law to realize a portion or all of a tax benefit for deductible temporary differences and carry forwards:

- Future reversals of existing taxable temporary differences
- Taxable income in prior carry back year(s) if carry back is permitted under the tax law
- Tax planning strategies
- Future taxable income exclusive of reversing temporary differences and carry forwards

During the current period, the Company has released a portion of its valuation allowance and has recognized an unreserved deferred tax asset of approximately \$44.2 million on its balance sheet as of March 31, 2011. This also results in a non-cash reduction in income tax expense.

The Company will continue to evaluate the available positive and negative evidence available in subsequent periods and adjust its remaining valuation allowance to an amount it determines to be more likely than not to be realized.

Services Agreement with Hallmark Cards

Hallmark Cards provides Crown Media Holdings with tax, risk management, health safety, environmental, insurance, legal, treasury, human resources, cash management and real estate consulting services. In exchange, the Company is obligated to pay Hallmark Cards a fee, plus out-of-pocket expenses and third party fees, in arrears on the last business day of each quarter. Fees for Hallmark Cards' services were \$387,000 for 2010 and are \$448,000 for 2011.

At December 31, 2010, and March 31, 2011, the Company's payables to Hallmark Cards affiliates on the accompanying condensed consolidated balance sheets were \$1.0 million and \$7.3 million, respectively. The December 31, 2010, balance was comprised of \$757,000 of state taxes due in December 2010 under the tax sharing agreement and \$248,000 of non-interest bearing unpaid accrued service fees and unreimbursed expenses. The March 31, 2011, balance was comprised of \$5.1 million of federal taxes due in April 2011 and \$877,000 of state

taxes due in December 2011 under the tax sharing agreement, \$1.2 million of assigned license payments, and \$46,000 of non-interest bearing unpaid accrued service fees and unreimbursed expenses. The \$15.2 million outstanding at December 31, 2009, was satisfied on June 29, 2010, in connection with the Recapitalization. For the three months ended March 31, 2010 and 2011, out-of-pocket expenses and amounts paid to third parties on the Company's behalf by Hallmark Cards were \$50,000 and amounts reimbursed to Hallmark Cards were \$202,000, respectively.

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

Pursuant to a 1998 agreement among the Company and others then owning membership interests in Crown Media United States (the "Company Agreement"), VISN Management Corp. ("VISN," a wholly-owned subsidiary of National Interfaith Cable Coalition, Inc., "NICC") owned a \$25.0 million mandatorily redeemable, preferred membership interest (the "preferred interest"). Until its December 2010 redemption, the preferred interest was reflected in the accompanying consolidated financial statements at its accreted fair value (which was established as of July 1, 2003 pursuant to *ASC Topic 480 Distinguishing Liabilities from Equity*).

On January 2, 2008, the Company and NICC executed an agreement (the "Modification Agreement") to resolve mutual disputes related to a December 2005 agreement (the "December 2005 NICC Agreement"). As part of the Modification Agreement, we agreed to pay NICC \$3.8 million in equal installments on each January 20 of 2008, 2009 and 2010. We also agreed to provide NICC a two-hour broadcast period granted each Sunday morning during the two year period ended December 31, 2009, and 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.

In addition to paying VISN \$25.0 million in 2010 for the redemption of the preferred interest, the Company paid NICC \$2.8 million and \$0 during the three months ended March 31, 2010 and 2011, respectively, in connection with the provisions of the Company Agreement, the December 2005 NICC Agreement and the Modification Agreement. Such payments fulfilled the Company's obligations to NICC and VISN.

8. Share-Based Compensation and Long Term Incentive Plan

Share-Based Compensation

The Company recorded \$76,000 and \$40,000 of compensation expense associated with the Employment and Performance RSUs during the three months ended March 31, 2010 and 2011, respectively, which have been included in selling, general and administrative expense on the accompanying condensed consolidated statements of operations.

As of December 31, 2010, and March 31, 2011, 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 \$2.62 on December 31, 2010, and \$2.32 on March 31, 2011, which is used to calculate the RSU liability. As of December 31, 2010, and March 31, 2011, there was unrecognized compensation cost, related to non-vested RSUs granted to the Company's employees, in the amount of \$375,000 and \$264,000, 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 \$0 during both the three months ended March 31, 2010 and 2011, respectively.

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 grant, 50% is an Employment Award (as defined under the LTI Agreements) and 50% is a

Performance Award (as defined under the LTI Agreements). 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. A portion of the Performance Award vested on December 31, 2010, and was subsequently settled in the first quarter of 2011, and the remaining 50% may vest and be settled 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.

The Company did not achieve the 2-year EBITDA target but did obtain 91% achievement of the 2-year Cash Flow target at December 31, 2010. Therefore, the Company settled the Cash Flow target during first quarter of 2011 in the amount of \$157,000.

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 grant, 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, if the performance criteria are achieved, 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.

In recognition of these agreements, the accompanying condensed consolidated statements of operations include \$428,000 and \$364,000 among selling, general and administrative expense for the three months ended March 31, 2010 and 2011, respectively. Additionally, the \$1.9 million and \$2.0 million liability for these agreements was included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets at December 31, 2010 and March 31, 2011, respectively.

9. Fair Value

The following table presents the carrying amounts and estimated fair values of the Company's notes payable to HCC and redeemable preferred stock at December 31, 2010 and March 31, 2011.

	December 31, 2010		March 31, 2011	
	Carrying Amount	Significant Unobservable Inputs (Level 3) Fair Value	Carrying Amount	Significant Unobservable Inputs (Level 3) Fair Value
(In thousands)				
Term A note and interest payable to HCC	\$ 261,433	\$ 199,361	\$ 247,961	\$ 192,249
Term B note and interest payable to HCC	156,262	119,528	153,387	119,934
Redeemable Preferred Stock	198,934	229,433	199,732	258,652

ASC Topic 820 Fair Value Measurements and Disclosures defines fair value of a liability as the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Estimates of the fair value of certain of the Company's financial instruments are presented in the table above. As a result of recent market conditions, the Company's debt obligations with HCC 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 carrying amounts shown in the table are included on the accompanying consolidated balance sheets under the indicated captions. The Company estimates the fair value of its debt to HCC on a quarterly basis. The majority of the Company's debt has been transacted with HCC.

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 on the debt is fixed, but the market rate will fluctuate.

10. Commitments and Contingencies

Lawsuit

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

As previously disclosed, a lawsuit was brought in July, 2009 in the Delaware Court of Chancery against the Company's Board of Directors, Hallmark Cards, Incorporated and its affiliates, as well as the Company as a nominal defendant, by S. Muoio & Co. LLC ("Muoio"), a minority stockholder of the Company, regarding a recapitalization proposal which the Company received from Hallmark Cards in May 2009. The lawsuit alleged, among other things, that the recapitalization was for an unfair price and undervalued the Company. The complaint requested the court enjoin the defendants from consummating the recapitalization transactions and award plaintiff fees and expenses incurred in bringing the lawsuit. Following the execution by the Company of the Recapitalization agreements, on March 11, 2010, the plaintiff filed an amended complaint raising similar allegations and seeking rescission of the Recapitalization. The Recapitalization was consummated on June 29, 2010.

A trial took place in September 2010. On March 9, 2011, the Delaware Court of Chancery concluded that the process and the price of the Recapitalization were entirely fair and entered a final judgment order in favor of the defendants on all claims and dismissed the lawsuit with prejudice. On April 7, 2011, Muoio filed notice of appeal. Muoio's initial brief is due May 23, 2011, after which the Company and the other appellees have 30 days to respond. Notwithstanding the favorable trial court ruling, at this time the Company cannot predict the eventual outcome of the appeal process.

Approximately \$2.1 million has been recorded in accounts receivable and approximately \$434,000 in accounts payable and accrued liabilities on the accompanying balance sheet at December 31, 2010, related to litigation costs to be reimbursed by the insurance company. Approximately \$3.2 million has been recorded in accounts receivable and approximately \$304,000 in accounts payable and accrued liabilities on the accompanying balance sheet at March 31, 2011, related to amounts to be reimbursed by the insurance company.

Guarantee

As discussed further under Program License Fees, RHIED assigned to Hallmark Cards its right to receive \$5.3 million in program license fees from the Company. The assignment relates to a 2002 guarantee issued by Hallmark Entertainment Holdings, Inc. (“HEH”) to an unaffiliated movie production company on behalf of RHIED. At that time, HEH was a wholly-owned subsidiary of Hallmark Cards and an intermediate parent of the Company. Also at that time, RHIED was a wholly-owned subsidiary of HEH; it ceased to be affiliated with Hallmark Cards in January 2006. As part of the Recapitalization, HEH was merged with the Company. In August 2010 the unaffiliated production company made demand of the Company for payment of amounts owed by RHIED. Hallmark Cards subsequently assumed defense of the claim and fully indemnified the Company. On December 10, 2010, RHIED filed for reorganization in bankruptcy. Pursuant to a settlement and release agreement among the unaffiliated production company, RHIED, Hallmark Cards and the Company, the Company’s obligation under the guarantee was extinguished. The settlement and release agreement was approved by the bankruptcy court on February 17, 2011 and became final and non-appealable on March 3, 2011.

Indemnifications of Third Parties for Residuals and Participations Liabilities

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, an affiliate of RHIED (“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. From time-to-time the Company reviews its estimate of the timing and amount of the otherwise unscheduled payments. At March 31, 2011, the Company has estimated the accreted and adjusted accrued liability to be \$14.7 million. Along with RHIED, RHI filed for reorganization in bankruptcy in December 2010. Pursuant to RHI’s court-approved plan of reorganization, the Company is obligated to make the following payments on behalf of RHI to certain creditors of RHI: \$2.5 million on May 1, 2011; and approximately \$8.0 million on July 5, 2011. The remainder of the estimated liability is classified as other than current.

In April 2005 the Company sold its international business including the international rights to its film library. As a condition of the sale, the Company agreed to pay an otherwise unlimited amount for residuals and participations related to the purchaser’s exploitation of the film assets for a ten-year period ending April 25, 2015. The Company estimated the fair value of this obligation to be approximately \$4.5 million at April 26, 2005. From time-to-time the Company reviews its estimate of the timing and amount of the otherwise unscheduled payments. At March 31, 2011, the Company has estimated the accreted and adjusted accrued liability to be \$423,000, \$277,000 of which is classified as current.

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, 2010.

Description of Business and Overview

Current Business

We own and operate pay television channels (the "Channels") in the United States of America. Our Channels, broadcast in both standard and high definition, offer high quality, adult and family-oriented programming.

According to Nielsen Media Research ("Nielsen"), the Hallmark Channel had 87.4 million subscribers at both March 31, 2011, and December 31, 2010, making it the 38th most widely distributed advertising-supported cable channel in the United States at each date. For the first quarter of 2011, the Hallmark Channel finished as the 30th highest rated advertising-supported cable channel for total day household ratings and the 29th highest rated advertising-supported cable channel in prime time as measured by Nielsen. Programming on the Hallmark Channel consists primarily of lifestyle shows, series and original movies.

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. In the second quarter of 2010, Nielsen began reporting ratings information for the Hallmark Movie Channel, after which we began selling Hallmark Movie Channel inventory to advertisers based on audience guarantees. This has increased and will continue to increase our ability to grow revenue from that channel. At March 31, 2011, Nielsen reported that the Hallmark Movie Channel was distributed to over 40.3 million subscribers.

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. Ratings for the Hallmark Channel declined from 22nd in total day viewership and 21st for prime time during the first quarter of 2010 to 30th in total day viewership and 29th for prime time during the first quarter of 2011. Our ratings for the Hallmark Movie Channel were 42nd in total day viewership and 36th for prime time during the first quarter of 2011. Prior to the second quarter of 2010, the Hallmark Movie Channel had not been the subject of ratings measurement by Nielsen Media Research. 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 costs and expenses relating to these actions.

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 (*i.e.*, advertising rates per thousand viewers) 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 premiered 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.

Advertising Revenue

The overall improvement in the economy during first quarter of 2011 had a favorable impact on cable advertising rates, including the rates for our inventory. Our first quarter of 2011 scatter market inventory was sold at rates 15% above rates in the 2010 scatter market and 73% above the rates for 2011 inventory sold in the upfront. Additionally, direct response rates were down by 35% compared to that inventory sold in the same period of 2010, the addition of overnight and early morning reducing the 2011 average. Although our CPMs in 2011 were higher than in 2010, our delivery of our key demographic, women 25-54, was substantially lower than prior periods. Our demographic delivery in 2011 was lower than in 2010. This lower demographic delivery offsets some of the gains in our CPMs.

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 40% 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 25% 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 39% 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. 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. The first quarter 2011 options that were exercised represent 14% of the first quarter 2011 upfront dollars.

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 September 2011 through December 2023, inclusive of renewal options.

We renewed our agreement with National Cable Television Cooperative ("NCTC"), on December 7, 2010. The NCTC distribution agreement covers approximately 13% of our total Hallmark Channel and 8% of our Hallmark Movie Channel subscribers.

The Company's agreement with AT&T expired on August 31, 2010. On September 1, 2010, the Hallmark Channel and the Hallmark Movie Channel were dropped from AT&T's platform because the parties had not agreed to the terms of a new distribution agreement. As a result, the overall subscriber numbers for the Hallmark Channel and the Hallmark Movie Channel decreased by approximately 2.5 million and 1.0 million, respectively. The Company accounted for subscriber revenue earned through August 31, 2010, on an accrual basis.

A distribution agreement with Cox ended on December 31, 2010. Our Channels continue to be distributed by Cox under the terms of the expired agreement through four extensions to that agreement that expired on April 30, 2011, while renewal negotiations continue. The Cox distribution agreement covers approximately 5% of our subscribers for the Hallmark Channel and 2% of our subscribers for the Hallmark Movie Channel.

The universe of cable and satellite TV subscribers in the United States is approximately 105 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 93 million subscribers and the Hallmark Movie Channel to reach 44 million subscribers by the end of 2011.

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 59.2 in 2010, and, in December 2010, the total day average median age of viewers of the Hallmark Channel and Hallmark Movie Channel was 57 and 63, respectively. For the first quarter of 2011, the average median viewing age was 59.4 for the Hallmark channel and 64.2 for the Hallmark Movie Channel. 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, which commenced in September 2010, are key parts of our efforts to attract our target audience over time.

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.

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 pay are 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. Beginning in the fourth quarter of 2010, we implemented program schedules that rely upon content that is supported by general rate and direct response advertising, effectively eliminating paid-programming as a source of revenue.

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.

Contracts executed in the 2010/2011 upfront period require that the Company use its best efforts to run sufficient make-good advertising spots within 12 months to achieve the impressions guarantees. If the Company does not make-good within 12 months, the Company is no longer obligated to satisfy the under-delivery of the guaranteed impressions. While the Company now has an obligation to use its best efforts to make-good on any under-delivery of guaranteed impressions within 12 months, it also has the benefit of being able to relieve the make-good obligations earlier than it has been able to do historically.

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 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, 2010.

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, program licenses, an administrative services agreement, a tax sharing agreement and the Recapitalization (described below), including the loans under the Credit Agreement, a registration rights agreement and a stockholders agreement. A summary of the terms and financial impact of these transactions is described in Item 1 “Business — Recent Developments — Recapitalization” in the Company’s Annual Report on Form 10-K as filed with the SEC for the year ended December 31, 2010.

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, H C Crown, LLC (“HCC”), a subsidiary of Hallmark Cards, 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. and Hallmark Entertainment Holdings, Inc., with and into the Company; and
- Reclassification of shares of Class B Common Stock into shares of Class A Common Stock, elimination of the Class B Common Stock and an increase of the authorized shares of Class A Common Stock to 500,000,000 shares and decrease of the authorized Preferred Stock to 1,000,000 shares.

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;
- 185,000 shares of the Company’s Series A Convertible Preferred Stock, \$0.01 par value; 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.

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.

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 months ended March 31, 2010 and 2011, are derived from the unaudited financial statements of Crown Media Holdings and its subsidiaries. Ratings and subscriber information is also unaudited. This data should be read together with the condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q.

	Three Months Ended March 31,		Percentage Change
	2010	2011	2011 vs. 2010
Revenue:			
Subscriber fees	\$ 16,994	\$ 17,749	4%
Advertising	51,310	55,734	9%
Sublicense fees and other revenue	74	112	51%
Total revenue	68,378	73,595	8%
Cost of Services:			
Programming costs	29,157	32,107	10%
Operating costs	2,697	2,952	9%
Total cost of services	31,854	35,059	10%
Selling, general and administrative expense	12,411	16,121	30%
Marketing expense	973	350	-64%
Income before interest and income tax expense	23,140	22,065	-5%
Interest expense	(25,464)	(1,795)	-93%
(Loss) income before income tax expense	(2,324)	20,270	
Income tax benefit	—	43,827	100%
Net (loss) income	\$ (2,324)	\$ 64,097	
Other Data:			
Net cash provided by operating activities	\$ 7,771	\$ 7,182	-8%
Net cash used in investing activities	\$ (397)	\$ (240)	-40%
Net cash used in financing activities	\$ (1,215)	\$ (22,989)	1792%
Hallmark Channel day household ratings (1)(3)	0.501	0.420	-16%
Hallmark Channel primetime household ratings (2)(3)	0.814	0.694	-15%
Hallmark Movie Channel day household ratings (1)(3)	N/A	0.254	
Hallmark Movie Channel primetime household ratings (2)(3)	N/A	0.476	
Hallmark Channel subscribers at period end	89,102	87,384	-2%
Hallmark Movie Channel subscribers at period end	33,183	40,311	21%

(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 January 1 through March 31.

Results of Operations

Three Months Ended March 31, 2010, Compared to Three Months Ended March 31, 2011

Revenue. Our revenue from continuing operations, comprised primarily of subscriber and advertising fees, increased \$5.2 million or 8% in 2011 over 2010. Our subscriber fee revenue increased \$755,000 or 4% due to rate increases under certain distribution agreements, net of a loss in the number of subscribers. The amount of subscriber acquisition fees that was recorded as a reduction of subscriber fee revenue was approximately \$526,000 and \$298,000 for 2010 and 2011, respectively.

The \$4.4 million or 9% increase in advertising revenue is primarily due to higher advertising rates offset in part by declines in viewer ratings across demographic categories for 2011 compared to 2010. Audience deficiency unit revenue increased \$7.2 million from contra-revenue of \$4.3 million for 2010, to revenue of \$2.9 million for the same period in 2011, leading to a corresponding increase in revenue recognized by the Company. Advertising revenue during the most recent quarter also reflects the benefit of selling ratings-based advertising on the Hallmark Movie Channel commencing in the second quarter of 2010. Advertising revenue from the Hallmark Movie Channel was \$3.7 million and \$7.3 million for the three months ended March 31, 2010 and 2011, respectively.

For the three months ended March 31, 2011, Nielsen ranked the Hallmark Channel 30th in total day viewership with a 0.420 household rating and 29th in primetime with a 0.694 household rating among the 86 cable channels in the United States market. For the three months ended March 31, 2011, Nielsen ranked the Hallmark Movie Channel 42nd in total day viewership with a 0.254 household rating and 36th in primetime with a 0.476 household rating among the 86 cable channels in the United States market.

Cost of services. Cost of services as a percent of revenue increased to 48% in 2011 as compared to 47% in 2010. This increase results primarily from the effects of the 10% increase in programming costs, discussed below, and offset in part by the 9% increase in advertising revenue discussed above.

Programming costs increased \$3.0 million or 10% from 2010 due to additional expense incurred in conjunction with the purchase of new programming during the first quarter of 2011.

Operating costs for 2011 increased \$255,000 over 2010 due in part to the \$146,000 increase in bad debt expense. The Company's bad debt expense was \$26,000 for 2010, as compared to \$172,000 for 2011. This is due to amounts not being paid in a timely manner by a few of our advertising customers.

Selling, general and administrative expense. Our selling, general and administrative expense increased \$3.7 million over 2010 due to a \$2.5 million increase in investment banking fees, a \$353,000 increase in music rights expense due to a settlement reached with a vendor, and research expense increased \$550,000 due to ratings information being provided for the Hallmark Movie Channel during the three months ended March 31, 2011, but not for the same period in 2010.

Marketing expense. Our marketing expense decreased 64% in first quarter of 2011 versus the first quarter of 2010. The company did not have a significant marketing promotion in the first quarter of 2010 or 2011.

Interest expense. Interest expense decreased \$23.7 million for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, due to the Recapitalization and the treatment of this transaction under troubled debt restructuring accounting.

Income tax benefit. During the current period, the Company has released a portion of its valuation allowance and has recognized an unreserved deferred tax asset of approximately \$44.2 million on its balance sheet as of March 31, 2011. This also results in a non-cash reduction in income tax expense.

Liquidity and Capital Resources

Cash provided by operating activities was \$7.8 million and \$7.2 million for the three months ended March 31, 2010 and 2011, respectively. The Company had net income of \$64.1 million for the three months ended March 31, 2011, as compared to a net loss of \$2.3 million for the three months ended March 31, 2010. Our depreciation and amortization expense for the three months ended March 31, 2011, remained constant at \$30.4 million while our income tax benefit increased to \$43.8 million for the three months ended March 31, 2011. The Company made programming payments of \$43.4 million and \$45.0 million during the three months ended March 31, 2010 and 2011, respectively.

Cash used in investing activities was \$397,000 and \$240,000 during the three months ended March 31, 2010 and 2011, respectively. During the three months ended March 31, 2010 and 2011, we purchased property and equipment of \$426,000 and \$240,000, respectively.

Cash used in financing activities was \$1.2 million and \$23.0 million for the three months ended March 31, 2010 and 2011, respectively. The Company made principal payments on its Term A and Term B loans of \$16.3 million for the three months ended March 31, 2011. The Company made a dividend payment of \$6.4 million to the Preferred Stockholder during the three months ended March 31, 2011.

In December 2010, the Company paid Hallmark Cards \$12.9 million under the federal tax sharing agreement, marking the first time that the Company has remitted cash under the agreement since it became a member of the consolidated federal tax reporting group in March 2003. In June 2010, \$8.5 million owed by the Company under the tax sharing agreement comprised a portion of HCC Debt that was subject to the Recapitalization. The Company may also have to make cash payments to Hallmark Cards during 2011 under the tax sharing agreement.

The Company's management anticipates that the principal uses of cash during the twelve month period ending March 31, 2012, will include the payment of operating expenses, accounts payable and accrued expenses, programming costs, residuals and participations of \$10.5 million, and principal and interest of approximately \$30.0 million to \$35.0 million. Subject to the legal availability of funds and approval by the Company's board of directors, the Company may also pay approximately \$26.8 million for cash dividends on Preferred Stock through March 31, 2012; at the option of the Company's board of directors, such dividends may be paid in the form of additional shares of Preferred Stock. The Company believes that cash on hand, cash generated by operations, and borrowing availability under its bank credit facility through June 30, 2011, will be sufficient to fund the Company's operations and enable the Company to meet its liquidity needs through March 31, 2012.

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, 2010, 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; 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, the 2010 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 March 31, 2011, the decline of the fair value of the fixed income portfolio would not be material.

As of March 31, 2011, our cash, cash equivalents and short-term investments had a fair value of \$14.5 million 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. Consequently, the size of this 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 months ended March 31, 2011, 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 March 31, 2011, we are not hedged or otherwise protected against risks associated with any of our investing or financing activities.

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.

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 March 31, 2011, 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 Recapitalization, please see Note 10 to the Unaudited Condensed Consolidated Financial Statements contained in Item 1 of this Report.

Item 1A. Risk Factors

For information regarding our risk factors, please our Annual Report on Form 10-K for the year ended December 31, 2010.

Item 6. Exhibits

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit Title</u>
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	Certificate of 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 (Commission File No. 000-30700 and 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 Exhibit 3.1 to our Current Report on Form 8-K filed on March 1, 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 Exhibit 3.2 to our Current Report on Form 8-K filed on March 1, 2010 and incorporated herein by reference).
3.6	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*	Employment Agreement, dated February 28, 2011, by and between Crown Media Holdings, Inc. and Andrew Rooke.
10.2	Intercompany Services Extension Agreement, dated as of January 1, 2011, by and between Hallmark Cards, Incorporated and Crown Media Holdings, Inc. (previously filed as Exhibit 10.50 to our Annual Report on Form 10-K filed on March 3, 2011, and incorporated hereby in reference).
10.3	Letter regarding the Credit Agreement dated February 15, 2011, between Crown Media Holdings, Inc. and HC Crown Corp. (previously filed as Exhibit 10.90 to our Annual Report on Form 10-K filed on March 3, 2011, and incorporated hereby in reference).
31.1	Rule 13a-14(a) Certification executed by the Company's Chief Executive Officer.
31.2	Rule 13a-14(a) Certification executed by the Company's Executive Vice President and Chief Financial Officer.
32	Section 1350 Certifications.

*Management contract or compensating plan or arrangement.

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	May 5, 2011
By: <u> /s/ ANDREW ROOKE </u> Andrew Rooke	Principal Financial and Accounting Officer	May 5, 2011

EMPLOYMENT AGREEMENT

Agreement, made as of March 7, 2011 (“Effective Date”), between Crown Media Holdings, Inc., a Delaware corporation, with offices at 12700 Ventura Boulevard, Los Angeles, California 91604 and 1325 Avenue of the Americas, 22nd Floor, New York, NY 10019 (“Employer”) and Andrew Rooke (“Employee”).

WHEREAS, Employer desires to employ Employee as provided herein and Employee desires to be employed by Employer upon the terms and conditions set forth:

NOW, THEREFORE, in consideration of the covenants herein contained, the parties hereto agree as follows:

1. Employment Duties.

(a) As of the Effective Date, Employer hereby employs and Employee hereby agrees to employment pursuant to the terms of this agreement (“Employment Agreement”). Employee agrees to serve as Executive Vice President, Chief Financial Officer. Additionally, Employee agrees to serve in such other capacities and perform responsibilities as shall be designated from time to time by Employer. Employee shall use Employee’s best efforts to promote the interests of Employer and shall devote Employee’s full business time, energy and skill exclusively to the business and affairs of Employer during the “Term” (as “Term” is defined in Paragraph 2 below).

(b) During the course of Employee’s employment hereunder, Employer may create or utilize subsidiary companies for the production and distribution of programming or to conduct the other activities and businesses of Employer. Employer shall have the right, without additional compensation to Employee, to loan or make Employee available to any subsidiary of Employer or company in common ownership with Employer to perform services for any programming, property or project owned or controlled by Employer or any such entity, provided that Employee’s services for any such entity shall be consistent with Employee’s duties hereunder. Employee further agrees that all the terms of this Employment Agreement shall be applicable to Employee’s services for each such entity.

(c) During the Term, Employee shall be required to perform Employee’s duties at the Employer’s office in Los Angeles or at such other principal location in the Los Angeles metropolitan area (or such other location as may be mutually agreeable to Employer and Employee), and Employee shall

undertake all travel required by Employer in connection with the performance of Employee's duties hereunder.

(d) Employer shall indemnify Employee for his acts as Employee to the extent provided in Employer's bylaws.

2. Term of Employment. The term of Employee's employment ("Term") with Employer shall commence on the Effective Date and shall end December 31, 2012 thereafter, unless terminated earlier as provided in Paragraph 7 of this Agreement.

3. Compensation.

(a) Salary. As compensation for Employee's services hereunder, Employer shall pay to Employee a base salary at the annual rate of Four Hundred Ten Thousand Dollars (\$410,000) per year. During the Term and any extensions, Employer will consider an adjustment of Employee's base salary in March of each year, commencing in March 2012.

(b) Performance Bonus. Contingent on employment through each year end; the end of the Term; or for termination of employment pursuant to Paragraph 7(b) below, following the end of each calendar year during the Term, Employee will be paid a bonus, to be pro rated for partial calendar years within the Term, in an amount based on achievement of criteria outlined by the Compensation Committee of Employer, which criteria shall be the same as that established for the senior management team. The bonus target will be 25% of base salary for the applicable period, pro rated for 2011. Such bonus will be paid to Employee on the date following the applicable calendar year that Employer designates for payment of bonuses to its employees in general, but in no event later than March 15.

(c) LTI. Employer will award to Employee Long Term Incentive ("LTI") in a Long Term Incentive Compensation Agreement and pursuant to the terms and conditions of the Amended and Restated Crown Media Holdings, Inc. 2000 Long Term Incentive Plan (collectively, referred to herein as the "Incentive Agreements"). The LTI target will be 45% of base salary for the applicable period, pro rated for 2011.

(d) Withholding. All payments of salary shall be made in appropriate installments to conform with the regular payroll dates for salaried personnel of Employer. Employer shall be entitled to deduct from each payment of compensation amounts required under applicable laws or for participation in any employee benefit plans.

(e) Expenses . During the Term, Employer shall pay or reimburse Employee on an accountable basis for all reasonable and necessary out-of-pocket expenses for entertainment, travel, meals, hotel accommodations and other expenditures incurred by Employee in connection with Employee's services to Employer in accordance with Employer's expense account policies for its senior executive personnel.

(f) Fringe Benefits . During the Term, Employee shall be entitled to receive the following fringe benefits pursuant to plans which may be amended from time to time or discontinued:

(i) group medical, dental, life and disability insurance as per Employer policy; and

(ii) any pension or other fringe benefits on terms that are or may become available generally to senior executives of Employer. Employee shall also be entitled to four (4) weeks paid vacation for each year of the Term, pro rated for 2011 and subject to accrual and usage as outlined in Employer's policies, as may be amended from time to time or discontinued. The allowable maximum accrual for vacation shall be 1.5 times your benefit, and once the maximum has been accrued, no further hours will accrue until vacation time has been used.

4. Confidentiality, Intellectual Property; Name and Likeness .

(a) Employee agrees that Employee will not during the Term or thereafter divulge to anyone (other than Employer and its executives, representatives and employees who need to know such information or any persons designated by Employer) any knowledge or information of any type whatsoever designated or treated as confidential by Employer relating to the business of Employer or any of its subsidiaries or affiliates, including, without limitation, all types of trade secrets, business strategies, marketing and distribution plans as well as concrete proposals, plans, scripts, treatments and formats described in Subparagraph (b) below. Employee further agrees that Employee will not disclose, publish or make use of any such knowledge or information of a confidential nature (other than in the performance of Employee's duties hereunder) without the prior written consent of Employer. This provision does not apply to information which becomes available publicly without the fault of Employee or information which Employee discloses in confidence to Employee's own privileged representatives or is required to disclose in legal proceedings, provided Employee gives advance notice to the Executive Vice President, Legal and Business Affairs and General

Counsel of Employer and an opportunity to Employer to resist such disclosure in legal proceedings.

(b) During the Term, Employee will disclose to Employer all concrete proposals, plans, scripts, treatments, and formats invented or developed by Employee during the Term which relate directly or indirectly to the business of Employer or any of its subsidiaries or affiliates including, without limitation, any proposals and plans which may be copyrightable, trademarkable, patentable or otherwise exploitable. Employee agrees that all such proposals, plans, scripts, treatments and formats are and will be the property of Employer. Employee further agrees, at Employer's request, to do whatever is necessary or desirable to secure for the Employer the rights to said proposals, plans, scripts, treatments, and formats, whether by copyright, trademark, patent or otherwise and to assign, transfer and convey the rights thereto to Employer at Employer's expense.

(c) Employer shall have the right in perpetuity to use Employee's name in connection with credits for programming, properties and projects for which Employee performs any services pursuant to this Agreement.

5. Employee's Representations. Employee represents and warrants that Employee has the right to enter into this Agreement and is not subject to any contract, commitment, agreement, arrangement or restriction of any kind which would prevent Employee from performing Employee's duties and obligations hereunder.

6. Non-Competition; No Raid.

(a) During the Term, Employee shall not engage directly or indirectly, whether through self-employment or as an employee, independent contractor, consultant, partner, shareholder or otherwise, in a business or other endeavor which materially interferes with any of Employee's duties or obligations hereunder or which is directly competitive with the business of the Employer or its subsidiaries, including but not limited to the production, distribution or any other exploitation of audiovisual television material (the "Other Business"). Both parties recognize that the services to be rendered hereunder by Employee are special, unique and extraordinary in character. In the event of a breach of this Paragraph 6(a) by Employee or a claim by Employee pursuant to this paragraph, both Employer and Employee shall have all of the remedies available to Employer at law or equity. Notwithstanding Paragraph 8 below, Employee and Employer agree that temporary and permanent injunctive relief may be sought by either in a court of law to enforce this Paragraph 6(a) and Paragraph 6(b) below.

(b) Employee further agrees that during the Term and for a period of one year thereafter, Employee will not:

(i) employ, or attempt to employ or assist anyone else to employ, any person who is, at the date of termination of Employee's employment, working as an officer, policymaker or in high-level creative development or distribution (including without limitation executive employees) for or rendering substantially full-time services as such to Employer;

(ii) publicly disparage Employer or its Board of Directors, individually or collectively, or

(iii) interfere with Employer's relationships with suppliers, customers, or other organizations or individuals with which Employer has a business relationship or is pursuing a business relationship during the Term.

7. Termination.

(a) This Agreement may be terminated and the Term ended on five (5) business days' written notice for any one of the following reasons (except (i) in which case termination shall occur on the date of death):

(i) The death of Employee;

(ii) A serious health condition of Employee that incapacitates Employee (as defined under the Family and Medical Leave Act) for a period exceeding an aggregate of twelve (12) work weeks during any twelve (12) month period of the Term. For purposes of counting the aggregate work weeks, days properly designated by Employee as vacation days shall not be counted. In the case of termination by virtue of either the death or disability of Employee, Employee or his heirs will be paid any bonuses which Employee has earned and which are attributable to periods prior to the effective date of termination, such payment to occur on the date such bonus would normally be paid;

(iii) For "cause," which for purposes of this Agreement shall be defined as:

(A) The use of a controlled substance and/or alcohol, either of which materially interfere with Employee's performance of Employee's services under this Agreement;

(B) Employee's commission of any act which constitutes a felony under federal, state or local laws or the law of any foreign country;

(C) Employee's persistent failure or refusal after written notice to perform any of Employee's duties and responsibilities pursuant to this Agreement as determined by the Board of Directors;

(D) Employee's dishonesty in financial dealings with or on behalf of Employer, its subsidiaries, affiliates and parent corporation or in connection with performance of Employee's duties hereunder;

(E) Employee's material breach of any provision of this Agreement; or

(F) Employee's voluntary resignation.

In the event of termination under Paragraph 7(a)(iii), solely for purposes of Paragraph 6, the Term shall not be deemed terminated and shall continue until the first to occur of twelve (12) months from termination or the date the Term would have ended prior to termination.

(b) Employer shall also have the right to terminate Employee prior to the expiration of the Term in addition to pursuant to Paragraph 7(a) above by providing Employee with written notice. In the event of a termination pursuant to this Paragraph 7(b), Employee shall not be entitled to any further compensation or benefits except (1) as may be provided under the Incentive Agreements; (2) twelve (12) months base salary, paid in a lump sum and discounted at "prime rate" to present value at the time of payment; (3) vested ERISA benefits (e.g., 401k plan); (4) benefits that may be required by law (e.g., COBRA); and (5) pro rata bonus through the date Employee's job duties end to be paid as provided in Paragraph 3(b) above. Employee shall have no obligation to seek comparable employment and if Employee does accept other employment, there will be no offset by Employer against the amounts payable under this Paragraph 7(b). If Employer terminates Employee under this Paragraph 7(b), Paragraph 6(a) shall not apply from the date of termination.

(c) In the event that Employer terminates this Agreement due to any of the reasons set forth in Paragraph 7(a) above, Employee shall be paid Employee's salary through the later of the expiration of the five (5) business days period referred to in Paragraph 7 (a) or the end of the month in which the termination event occurs, after which Employer's obligation to pay salary to Employee shall terminate. After making the payments provided for in this Subparagraph (c), Employer shall have no further obligations to Employee pursuant to this Agreement, except (1) as may be provided under

the Incentive Agreements; (2) vested ERISA benefits; or (3) benefits that may be required by law (e.g., COBRA).

(d) Upon termination of this Agreement, Employee shall not retain any business records or documents (including electronic) relating to any activity of Employer or any of its parent, subsidiary or affiliated companies, shall not disseminate any such information in any format, and shall return any business records, documents and property (including electronic) belonging to Employer or its parents, subsidiaries and affiliates. This includes all information that the Employee may have in hard copy or on any electronic media (such as CD, DVD, thumb drives, portable hard drives, home computer, etc.).

(e) Upon termination of Employee's employment for any reason, Employee shall tender Employee's resignation from any offices Employee holds for Employer or its subsidiaries, and Employer shall accept such resignation forthwith.

8. Arbitration. Any dispute between the Employee and Employer involving any provision of this Agreement of employment matter; including any claim of discrimination under state and federal law, other than an action in court requesting temporary or permanent injunctive relief as set forth in Paragraph 6 above, shall be resolved by arbitration under the employment rules of the American Arbitration Association and in accordance with applicable law, allowing all damages and remedies available in a court action. Such arbitration shall be conducted in the New York City metropolitan area before one (1) neutral arbitrator who is a lawyer with expertise in employment law. Employer shall pay the expenses of the arbitration and each party shall pay its own legal fees and expenses. The arbitrator shall provide a reasoned opinion supporting his/her conclusion, including detailed findings of fact and conclusions of law. Such findings of fact shall be final and binding on the parties, but such conclusions of law shall be subject to appeal in any court of competent jurisdiction.

9. Assignment. This Agreement is a personal contract and, without the prior written consent of Employer, shall not be assignable by the Employee. The rights and obligations of Employer may be assigned and such assignment shall bind in their entirety the successors and assigns of Employer. As used in this Agreement, the term "successor" shall include any person, firm, corporation or other business entity which at the time, whether by merger, purchase or otherwise, acquires all of substantially all of the assets or business of Employer.

10. Amendment; Captions. This Agreement contains the entire agreement between the parties. It may not be changed orally, but only by agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought. Paragraph headings are for convenience of reference only and shall not be considered a part of this Agreement. If any clause in this Agreement is found to be unenforceable, illegal or contrary to public policy, the parties agree that this Agreement shall remain in full force and effect except for such clause.

11. Notices. Any notices or other communications required or permitted hereunder shall be in writing and shall be deemed effective when delivered in person or if mailed, by registered or certified mail, return receipt requested, in which case the notice shall be deemed effective on the date of deposit in the mails, postage prepaid, addressed to Employee at the address for Employee appearing in Employer's records. Notices to Employer shall be addressed to its Chief Executive Officer at the address first written above, with a copy to the Executive Vice President of Legal and Business Affairs, Crown Media Holdings, Inc., 12700 Ventura Blvd., Studio City, CA 91604. Either party may change the address to which notices are to be addressed by notice in writing given to the other in accordance with the terms hereof.

12. Periods of Time. Whenever in this Agreement there is a period of time specified for the giving of notices or the taking of action, the period shall be calculated excluding the day on which the giver sends notice and excluding the day on which action to be taken is actually taken.

13. Laws. The laws of the state of New York shall apply to this Agreement and the employment relationship without the application of any conflict of law provisions.

14. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, and all of which, taken together, shall constitute one instrument.

IN WITNESS WHEREOF, Employer has by its appropriate officer signed this Agreement and Employee has signed this Agreement as of the day and year first above written.

CROWN MEDIA HOLDINGS, INC.

By William J. Abbott
Title:

Andrew Rooke
Andrew Rooke

CERTIFICATION

I, William J. Abbott, certify that:

1. I have reviewed this 10-Q Report for the quarter ended March 31, 2011, 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.
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Dated: May 5, 2011

/s/ WILLIAM J. ABBOTT

William J. Abbott

President and Chief Executive Officer

CERTIFICATION

I, Andrew Rooke, certify that:

1. I have reviewed this 10-Q Report for the quarter ended March 31, 2011, 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.
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Dated: May 5, 2011

/s/ ANDREW ROOKE

Andrew Rooke
Chief Financial Officer

**CERTIFICATION OF 10-Q REPORT
OF
CROWN MEDIA HOLDINGS, INC.**

FOR THE QUARTER ENDED MARCH 31, 2011

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 March 31, 2011.
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 May 5, 2011.

/s/ WILLIAM J. ABBOTT

William J. Abbott, President and
Chief Executive Officer

/s/ ANDREW ROOKE

Andrew Rooke, Chief Financial Officer
