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January 7, 2002

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Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Notice of Written *Ex Parte* Presentation
CS Docket No. 98-120

Dear Ms. Salas:

Pursuant to Section 1.1206(b)(1), the Hallmark Channel, by its attorneys, hereby submits two copies of a written *ex parte* presentation for inclusion in the public record of the above-referenced proceeding.

If there are any questions regarding this matter, please communicate directly with the undersigned.

Sincerely,



Seth A. Davidson

Enclosure

No. of Copies rec'd. 071
List ABOVE



Lana Corbi
President & Chief Executive Officer
Crown Media United States, LLC

December 18, 2001

The Honorable Michael K. Powell
Chairman
Federal Communications Commission
455 N. 12th Street, S.W., Room 8-B201
Washington, D.C. 20554

Re: CS Docket No. 98-120

Dear Mr. Chairman:

This past fall, Hallmark Channel was invited to testify at a hearing on the transition to digital television to be held by the Subcommittee on Telecommunications and the Internet of the House Energy and Commerce Committee. Unfortunately, the hearing had to be postponed.

In its prepared testimony, Hallmark Channel pointed out that existing “must carry” and “retransmission consent” rules already give broadcasters advantages over cable networks. Unlike broadcasters, cable channels such as Hallmark “compete solely on the basis of program quality and consumer demand” and Hallmark Channel is investing hundreds of millions of dollars in high quality, family-friendly original programming. Recent studies show that our investments are producing results and that Hallmark Channel is now one of the most highly sought cable channels among viewers and cable operators. Indeed, bolstered by one of the most respected and trusted brand names in America and the 50-year legacy of the Hallmark Hall of Fame, Hallmark Channel currently reaches more than 42 million homes in the United States.

Yet, notwithstanding our successes, Hallmark Channel’s continued ability to provide consumers with the high level of quality programming they demand and deserve depends requires that we reach even more subscribers. However, the fact is that while cable system capacity is increasing, the demands for that capacity, including demands for broadband and other advanced services, are increasing even faster. Consequently, Hallmark Channel’s prepared testimony noted that “putting broadcasters at the head of the cable distribution line for a second time threatens to snuff out the very existence of independent programmers like Hallmark Channel by road-blocking our ability to gain the carriage we need to grow” and urged that the government “not give broadcasters yet another leg up in this highly competitive marketplace by mandating additional carriage of stations’ digital signals during the broadcasters’ transition to digital.”

CrownMedia
UNITED STATES, LLC.

A Crown Media Holdings, Inc. Company

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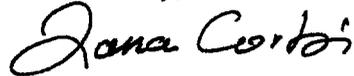
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Although the hearing at which Hallmark Channel intended to testify was postponed indefinitely, we believe that it is critically important that policymakers hear our message. Therefore, we are submitting an updated version of our testimony for inclusion in the record in the Commission's ongoing "digital must carry" proceeding (CS Docket No. 98-120).

I hope that you will be able to take the time to read our testimony (a copy of which is attached) and consider our position. I would be happy to discuss this important issue with you, or with your staff, at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Lana Corbi". The signature is written in a cursive, flowing style.

Lana Corbi
President and CEO

cc: The Honorable Kathleen Q. Abernathy
The Honorable Michael J. Copps
The Honorable Kevin J. Martin
Kenneth Ferree
Rick Chessen

**TESTIMONY PREPARED FOR DELIVERY
BY THE HALLMARK CHANNEL
BEFORE THE
HOUSE ENERGY AND COMMERCE COMMITTEE
SUBCOMMITTEE ON TELECOMMUNICATIONS AND THE INTERNET**

**“Transition to Digital Television: Progress on Broadcaster Buildout
and Proposals to Expedite Return to Spectrum”**

**September 12, 2001
(hearing postponed)**

[Updated Version Prepared December 18, 2001]

The Hallmark Channel greatly appreciates the opportunity to present testimony to the Subcommittee regarding broadcaster demands for “digital must carry.” This testimony reflects the views not only of Hallmark Channel, but also the views of many cable program networks, including the two dozen cable networks that visited with many members of this Committee in May.

The purpose of our testimony is two-fold. We want to acquaint you with the exciting family-friendly, high quality programming that Hallmark Channel is creating. More importantly, we want to urge that as you seek ways to facilitate the broadcasters’ digital transition, you do nothing to disadvantage cable program networks that are competing in the marketplace based upon the strength and quality of our programming.

First let us tell you a little about Hallmark Channel. It is a 24-hour television programming service that provides a diverse slate of high-quality entertainment that is family-friendly. The channel is owned and operated by Crown Media Holdings, Inc.

The Hallmark Channel is investing hundreds of millions of dollars in high-quality, original programming designed to appeal to adults but which does not contain content that is inappropriate for children. As part of that lineup, we present new, original movies, miniseries and series from Hallmark Entertainment, and we’re also the exclusive home of movies from the prestigious and award-winning Hallmark Hall of Fame Collection.

We hear repeatedly from parents who are grateful to have a channel with programming that they can watch and enjoy with their families. And that mirrors what we hear from policymakers who consistently encourage the television industry to provide more family-friendly programming.

At Hallmark Channel, we believe we can successfully fill that very clear need – but only if we’re allowed to compete on equal footing with others in the

marketplace. Already, broadcasters enjoy an advantage over cable networks like Hallmark by virtue of government mandated analog "must carry" requirements and the ability to leverage retransmission consent into the carriage of additional broadcast-affiliated cable networks. It is critical to program networks like Hallmark Channel that the government not give broadcasters yet another leg up in this highly competitive marketplace by mandating additional carriage of stations' digital signals during the broadcasters' transition to digital.

Hallmark not only is one of the top 10 brands in the United States, it also is one of the most widely recognized, respected, and trusted names in the programming industry based on the 50-year legacy of the award-winning Hallmark Hall of Fame productions. And notwithstanding our relative infancy as a cable channel, we now reach more than 42 million viewers. But our ability to continue to provide consumers with the high level of quality programming they demand and deserve is dependant on our ability to reach even more subscribers. Clearly, distribution is critical to us. That is why cable programmers vigorously oppose government requirements that mandate carriage of one form of speech over another.

The Hallmark Channel is one of more than 280 national and regional program networks vying for carriage on cable and satellite systems today. And more new networks launch every year. As an advertiser-supported network, our commercial viability is dependent on broad distribution by multichannel video providers.

Unlike broadcasters, we have no over-the-air access to viewers, nor do we have guaranteed carriage on any distribution platform. We compete solely on the basis of program quality and consumer demand. We must negotiate for carriage with cable operators and satellite distributors in order to reach viewers. Nothing prevents broadcasters from doing the same. The Hallmark Channel competes for distribution not only with other cable networks, but also with a host of other broadband services vying for limited cable channel capacity. Such services include high-speed Internet service, interactive video and cable telephony.

Cable channel capacity remains limited. At Hallmark Channel, we experience it every day as we're out in the field talking to operators trying to get carried on their systems. A recent study by Beta Research Corporation revealed that, among mid-sized networks that cable operators are interested in adding to their systems, Hallmark Channel ranked first. And Nielsen Media Research data shows that Hallmark Channel programming is generating substantial viewer interest and demand. For example, during the third quarter of 2001, Hallmark Channel led all ad-supported cable networks and the four major broadcast networks in terms of growth in the average number of prime-time minutes that viewers spends watching.

But cable operators have many demands on their capacity and we've been told time and again that an operator would love to carry us, but just doesn't have space. This frustration will be compounded many times over if operators are required to carry digital duplicates of every analog broadcaster.

Despite recent cable system rebuilds, there is still intense competition for carriage. Even in upgraded 750 MHz cable systems, channel capacity is not unlimited. A 750 MHz cable system typically dedicates 550 MHz of capacity to offer its customers 80 channels of analog cable service. However, to compete with the 200 plus channels offered by satellite providers, many cable operators have added capacity to offer their customers additional programming choices as well as new, innovative services. But operators have only added 200 MHz, on average. This additional capacity is used to provide packages of digital service (e.g., digital tiers showcasing additional basic cable programming services or tier of multiplex premium movie channels), Video-on-Demand (VOD) or Near Video-on-Demand (NVOD), cable high-speed modem service, cable telephony and interactive services. Each of these services place bandwidth demands on cable systems.

Each broadcast station is already guaranteed one slot on cable systems – for its analog channel today, and for its primary digital signal when broadcasters return their analog spectrum. Further, broadcasters already have over-the-air access to virtually every TV household. Putting broadcasters at the head of the cable distribution line for a second time threatens to snuff out the very existence of independent programmers like Hallmark Channel by road-blocking our ability to gain the carriage we need to grow.

As we noted earlier, Hallmark Channel has invested millions of dollars in high quality programming that is family-friendly because we agree with what you and the American public have been saying. We have built a network from the ground up with no government subsidy.

In cable television, *we have to show* cable operators what we have to offer before *they'll even consider carrying us*. And yet, after having sought and obtained public spectrum for free to make the transition to digital, broadcasters are now demanding a second government grant of cable channel capacity for whatever services they might put in their digital spectrum.

Make no mistake, consumer choice will be reduced as duplicative broadcast programming displaces high-quality, diverse and *original* cable programming. As one of the services that will be in jeopardy if dual must carry is imposed, no one has a better perspective on that than we do. In the end, the real loser is the American public whose right to choose the kind of programming they want to bring into their homes is decided *for* them, not *by* them.

The Hallmark Channel understands this Committee's interest in seeing the digital transition progress smoothly. There are indications the marketplace is working to ensure this happens. The cable industry, for its part, is moving steadily toward digital. Cable operators have invested nearly \$50 billion to upgrade their facilities to offer customers digital video and other broadband services. Cable programmers are developing new digital programming to provide consumers more and more choice. Cable networks – like HBO, Showtime, and the Madison Square Garden Network – are producing high definition programming as well. Compelling digital programming will ultimately be the force that motivates customers to buy new digital television sets.

While progress toward the transition may be slower than everyone had hoped, we urge you to be wary of the potential unintended consequences of government intervention. The Hallmark Channel and others like it will suffer great harm if dual must carry is imposed. And if nothing more than duplicative digital versions of broadcast stations trump new and diverse cable program networks, consumers will have less choice.

The programming marketplace is highly competitive and is already skewed against cable networks by analog must carry. We urge you not to further hinder Hallmark's ability to compete by giving yet another advantage to broadcasters. As a single network, we are willing to compete with *all* programmers – broadcast and cable – and let consumers judge the success of our efforts. As a single network, we believe we can succeed in a marketplace where the best ideas and the best programming are allowed to flourish.

Thank you again for inviting us to testify today.