

Annual Report 2008



America's Leader In Outdoor TV



OUTDOOR
CHANNEL

America's Leader In Outdoor TV

PRESIDENT'S MESSAGE TO SHAREHOLDERS

In 2008, we successfully strengthened our leadership position in the outdoor television market. Our strategic investments in programming, marketing and sales drove record ratings increases, double digit advertising growth and strong gains in our profitability. In addition, we made considerable progress implementing our digital strategy as well as renewing several important distribution relationships.

Strong Financial Performance

In 2008 our total revenues increased 16.4 percent, while our advertising revenues rose 25.4 percent. We are pleased with these gains given the national recession and advertising market downturn.

Subscriber revenues increased slightly for the year, in line with our plan. We believe we have now reached a trough level with regard to affiliate fee decreases, and we expect moderate growth in the year ahead, primarily from rate increases related to renewed affiliate agreements.

Earnings before interest, taxes and depreciation and amortization, adjusted for the effects of discontinued operations and share-based compensation expense, grew to \$10.9 million in 2008, compared to \$9.5 million in 2007. Our net income was \$2.4 million in 2008, up substantially from a net loss of \$1.9 million in 2007.

We closed the year with a very healthy balance sheet. We had cash and cash equivalents totaling \$60.3 million, working capital of \$70.3 million, and total shareholders' equity was \$136.4 million. We continue to have no long-term debt.

Solid Operating Progress

Our 2008 financial results reflect our progress in implementing the plan we put in place two years ago to refocus our business, re-launch the Outdoor Channel brand, and improve our operating and financial returns.

In 2008, we strengthened Outdoor Channel's position as the premier destination for outdoor enthusiasts and we solidified our value to our distribution partners and advertisers. In addition to improving our content, we made significant progress in renewing distribution agreements, as well as broadening existing distribution relationships in key markets across the country. We also began simulcasting in high definition and launched our HD service on select cable systems across the nation. We also improved our online destination, outdoorchannel.com, which serves as an attractive growth platform.

Our operating progress has translated into notable improvement in the fundamentals of our business. For perspective, our positive 2008 net income represents a gain of over \$9 million from the net loss of approximately \$7.0 million that we reported only two years ago. Our profitability has grown dramatically in a very short timeframe, even as we made significant investments in our infrastructure. This achievement reflects our disciplined approach to managing the company and our focus on generating measurable returns from our investments.

Outdoor Channel's programming lineup, brand and broadband video presence all contribute to a very high-quality and engaging experience that is vastly improved from the appearance and feel of our network only two years ago. This has led to a dramatic increase in our total household ratings. In fact, our total household audience delivery rose by 24 percent in prime time -- Monday through Sunday, 7:00 p.m. to midnight -- in 2008 compared to 2007.

Building on our Success

In early 2009, we have continued to execute our strategic plan. During the first quarter we introduced ten new series across the hunting, fishing, shooting, and self-defense categories. Thus far, viewer response to these new programs has been positive. We also boosted our content offerings via our recently announced partnership with Bonnier Corporation to collaborate on programming, cross-promotion and online content. Bonnier publishes several of the world's highest quality and most popular titles, including Field & Stream, Outdoor Life, Saltwater Sportsman and others.

We also recently announced the acquisition of Winnercomm, Inc. The company has an outstanding reputation in our industry as a supplier of quality content to multiple national networks. We believe this acquisition will strengthen our content development capabilities, unlock additional production efficiencies, enhance our advertising sales capabilities and expand our revenue streams. In addition to content production, we will also gain ownership of Winnercomm's interactive marketing services unit, as well as the Skycam/Cablecam systems business. These are complementary assets that will diversify our business to some extent. We're moving ahead with the integration process, and we look forward to leveraging these assets as we move through 2009.

On the digital front we announced the acquisition of Down Range Television, the leading firearms and shooting sports online portal. Down Range is one of the most successful online communities for shooters and firearm enthusiasts and offers a combination of video, forums, blogs and industry coverage. Down Range Television will further strengthen our brand with our core audiences and expand our potential to attract new advertisers.

Finally, on the distribution side, we've made additional progress at the regional and local level, as evidenced by our recent move to a more broadly distributed tier in multiple Comcast systems in Arizona and New Mexico.

As we execute our strategy, we remain committed to maintaining a solid balance sheet. Our strong financial condition has given us the opportunity to pursue opportunistic acquisitions aimed at accelerating our growth with reduced risk. We will continue to carefully evaluate additional opportunities in the year ahead.

The Year Ahead: Focused on Execution

While we remain confident about our ability to grow the company over the long term, we are not immune to the near-term impact of the challenging macro-economic environment and weak industry-wide advertising market. Our advertisers are becoming increasingly conservative in early 2009 and our rate of growth has slowed significantly from recent robust levels. However, our relationships with our advertisers remain strong, and we are taking steps to broaden our appeal to new advertiser categories. Given the strength of our network, we believe we have ample opportunity to grow our advertising relationships over the long term and take share from our competitors.

We are also continuing to seek avenues to expand and strengthen our distribution while continuing to build and monetize our digital presence, principally our online broadband channel.

Given the difficult near-term ad sales environment, we are taking additional steps to reduce costs and improve efficiencies across our operations. We remain committed to operating our business as profitably as possible without sacrificing the necessary investments in our long-term future, in line with our strategic plan. Our audience, subscriber and advertising gains in 2008, put us in a strong position as we work our way through the current recession.

Our confidence in our business and long-term outlook, as well as our commitment to shareholders, is reflected in our stock repurchase program. In early 2009, our Board authorized another program for the repurchase of up to an aggregate of \$10 million of our issued and outstanding common shares.

Invaluable Support

Our success is underlined by the tremendous support of all our constituents, especially our employees, advertising and distribution partners, and shareholders. On behalf of our Board and management team, we can't thank you enough for your support. We look forward to another rewarding year in 2009.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Werner, Jr.", written in a cursive style.

Roger L. Werner, Jr.
President and Chief Executive Officer

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

Form 10-K

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

For the fiscal year ended December 31, 2008

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: 000-17287

OUTDOOR CHANNEL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

33-0074499
*(I.R.S. Employer
Identification No.)*

43445 Business Park Dr., Suite 103, Temecula, California 92590

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(951) 699-6991

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$0.001 par value

The Nasdaq Global Market

Securities registered pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions 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 Smaller reporting company
(Do not check if a 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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately \$112.0 million computed by reference to the closing price on such date.

On March 6, 2009, the number of shares of common stock outstanding of the registrant's common stock was 25,221,391.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2009, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

OUTDOOR CHANNEL HOLDINGS, INC.

FORM 10-K

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PART I

ITEM 1. BUSINESS.

As used in this annual report on Form 10-K, the terms “we,” “us,” “our” and the “Company” refer to Outdoor Channel Holdings, Inc. and its subsidiaries as a combined entity, except where noted or where the context makes clear the reference is only to Outdoor Channel Holdings, Inc. or one of its subsidiaries.

Forward-Looking Statements

The information contained in this report may include forward-looking statements. Our actual results could differ materially from those discussed in any forward-looking statements. The statements contained in this report that are not historical are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements, without limitation, regarding our expectations, beliefs, intentions or strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provisions contained in those sections. Such forward-looking statements relate to, among other things: (1) expected revenue and earnings growth and changes in mix; (2) anticipated expenses including advertising, programming, personnel and others; (3) Nielsen Media Research, which we refer to as Nielsen, estimates regarding total households and cable and satellite homes subscribing to and viewers (ratings) of Outdoor Channel; and (4) other matters. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

These statements involve significant risks and uncertainties and are qualified by important factors that could cause our actual results to differ materially from those reflected by the forward-looking statements. Such factors include but are not limited to risks and uncertainties which are discussed below under “Item 1A Risk Factors” and other risks and uncertainties discussed elsewhere in this report. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this Form 10-K and in our other filings with the Securities and Exchange Commission. For these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act.

Company Overview

Outdoor Channel Holdings, Inc. was originally incorporated in Alaska in 1984. On September 8, 2004, we acquired all of the outstanding shares of The Outdoor Channel, Inc. that we did not previously own. Effective September 15, 2004 we reincorporated from Alaska into Delaware. We own and operate Outdoor Channel®, a national television network devoted to traditional outdoor activities such as hunting, fishing and shooting sports, as well as off-road motor sports and other outdoor related lifestyle programming. Our target audience is comprised of sportsmen and outdoor enthusiasts throughout the U.S. According to a survey by the U.S. Fish and Wildlife Service, in 2006 there were over 88 million outdoor enthusiasts throughout the U.S. who spent in excess of \$122 billion in pursuit of their outdoor activities. As of December 31, 2008, we had relationships or agreements with all of the largest cable and satellite companies, as well as both telephone companies offering video service, in the U.S. Through these arrangements and others, Outdoor Channel is carried by cable, satellite and telecommunications service providers making Outdoor Channel available to, meaning that it could potentially be subscribed to by, over 85 million U.S. households. According to estimates by Nielsen, Outdoor Channel was subscribed to by approximately 29.5 million households in December 2008.

Nielsen is the leading provider of television audience measurement and advertising information services worldwide. Nielsen’s estimate of the number of households subscribing to a particular network is based upon a statistical method, and this estimate is generally accepted in the industry as being the standard for measuring the number of households a buyer of network advertising time can potentially reach. Typically the Nielsen estimate of the number of subscribing households to a particular network exceeds the number of subscribers on which the network is being paid by the service providers for the following reasons, among others:

- inherent errors in Nielsen’s statistical methodology;

- a two to four month delay in the reporting of the number of subscribers on which the service provider is paying the network;
- service providers paying a network on a lower number of subscribers than those actually subscribing to the network because of special arrangements they have made with various groups of subscribers, for example, a service provider may agree to charge an apartment complex for only 100 units in a 150 unit complex; Nielsen's estimate theoretically includes the entire 150 households, but the service provider only reports 100 subscribing households; and
- theft of a service provider's television service; again, Nielsen should include these households in its estimate, but the service provider would not report such household as a subscriber.

Please note that the estimate regarding Outdoor Channel's subscriber base is made by Nielsen Media Research and is theirs alone, and does not represent our opinions, forecasts or predictions. It should not be implied that we endorse nor necessarily concur with such information, simply due to our reference to or distribution of their estimate. Although we realize Nielsen's estimate is typically greater than the number of subscribers on which a network is paid by the service providers, we are currently experiencing a greater difference than we would expect, and we anticipate this difference to decrease as we grow our total number of subscribers.

Outdoor Channel was established in 1993 and began broadcasting 24 hours a day in May 1994. Since inception, we have been committed to providing excellent programming and customer service to our distribution partners. We believe Outdoor Channel provides viewers with a unique destination for authentic, informative and entertaining outdoor programming. As a result, we believe that our viewers tend to be more loyal and spend more time watching Outdoor Channel than other networks that offer outdoor programming. We also believe that Outdoor Channel has become a desirable network for advertisers of products and services used by outdoor enthusiasts.

2008 Developments

In 2008, we continued making significant changes, and we believe the changes have strengthened our leadership position in the Outdoor TV market. During 2008 we made significant changes and improvements in the following five broad categories:

- Programming;
- Ratings;
- Ad Sales;
- Conservation and Affinity Organizations; and
- Digital Media.

Programming

During 2008, we continued to focus on improving the quality of our programming, both technically as well as editorially. These improvements involved elimination of a number of lower quality program series as well as the establishment of new, more stringent production quality standards for our remaining producers. We continue to produce all of our original, owned programming in High Definition and are striving to have all producers buying air-time from us to be 100% High Definition as well.

Ratings

We are the only full-time outdoor programming network that is Nielsen rated, and our average Nielsen ratings on Monday — Sunday 7PM — Midnight increased by approximately 24% in 2008 over 2007. We believe this is a result of our continued efforts regarding the quality of our programming as well as the changes we instituted in 2007 regarding our scheduling and on-air look and feel. We also believe that this enhances our credibility with more national advertisers as well as confirming our value proposition for those advertisers in the outdoor sports market.

Ad Sales

In 2008, we were able to increase the rates of our advertising time. This was a result of our improved quality and ratings of our programming as well as a market adjustment we initiated in 2007 and continued into 2008. We believe that we have now improved our ad sales rates generally to the industry-standard market rate, and do not expect to continue being able to substantially increase such rates in the near future.

Conservation and Affinity Organizations

During 2008, we entered into new relationships with many major conservation and affinity organizations related to the outdoor sporting industry and community service. Such new relationships include: Boy Scouts of America, Ducks Unlimited, Rocky Mountain Elk Foundation, Pheasants Forever, Safari Club International and Trout Unlimited. In addition, during 2008 we believe we further cemented relationships with similar organizations with which we had prior relationships such as National Wild Turkey Foundation, National Shooting Sports Foundation and the Congressional Sportsmen's Foundation. These organizations' efforts are aligned in many ways with our corporate values, and we feel that having these synergistic relationships with all of these major organizations is a testament to their belief that Outdoor Channel is truly the leader in outdoor television.

Digital Media

We continue to monitor the trends of television viewing habits and realize that many viewers are looking to alternative means for the video content they want to watch. Advertisers are noticing these trends as well. We launched our enhanced web site in 2007 to allow broadband streaming of some of our outdoor programming, and given the significant decline in print advertising that was generally expected, we committed significant efforts in 2008 to continue building and improving our web site and to offer other digital means of delivering video content, such as Video-on-Demand. We believe such alternative delivery means will allow us to offer our advertisers additional means to reach their customers.

Industry

Historically, television broadcasters have transmitted signals through the airwaves and households received the signals through antennas at no cost. This method of broadcasting signals had several disadvantages. The signal could not reach many areas due to signal strength, remoteness of many communities and topography. In addition, for those households that could receive the signal, it often produced poor picture and sound quality.

Unlike traditional television broadcasters which deliver their programming without charge, cable companies provide subscription television service for a fee. These service providers transmit signals through coaxial cable connected directly to individual homes. In most markets, this service delivers a much improved picture and sound quality and offers an increased number and wider variety of channels as compared to broadcast television. In addition to using cable for connectivity, companies use satellite technology to provide subscription television service directly to households. This industry of providing television service to households for a fee, or on a subscription basis, is typically referred to as "pay television."

The pay television industry is comprised primarily of two segments: service providers and networks.

Service Providers. Pay television service providers, also commonly referred to as distributors, are primarily comprised of two types: cable and satellite. These service providers own and operate the platforms they use to deliver television programming to subscribers. Cable and satellite service providers compete against each other for subscribers. These service providers attempt to create a mix of channels, or tiers, that will be attractive to the households in the markets they serve in an effort to attract and retain these households as subscribers. Historically, service providers generate revenue primarily by selling television service to households. They also make many of the programming decisions, including which channels to carry and in which packaged offering, or tier, a channel should be included.

Cable Systems. Pay television cable systems consist of two groups: independent cable providers and multi-system cable operators, or MSOs. Independent cable providers are smaller, individual systems that deliver the television signal to households in only one or a limited number of regions. Generally, independent

cable service providers operate in distinct markets that range from large metropolitan centers to small rural areas and do not compete directly with each other in their respective markets. In comparison, MSOs are companies that are affiliated with, or control, a number of regional or individual cable systems. Examples of MSOs include Time Warner Cable and Comcast Cable Communications. In many instances, channels need to establish a relationship with an MSO in order to pursue carriage on its affiliated regional cable systems. As of December 2008, cable providers delivered pay television to approximately 70.2 million U.S. households, according to Nielsen estimates.

Satellite Systems. Pay television satellite systems deliver television signals to households via orbiting satellites using digital technology. Unlike cable, where the service providers generally do not compete against each other, satellite service providers compete against each other directly because reception from any one satellite service provider is generally available to substantially all viewers wishing to subscribe to it. Examples of satellite service providers include DIRECTV® and DISH Network™. As of December 2008, there were approximately 48.0 million homes receiving pay television using some means other than cable, according to Nielsen. We believe that most of these households subscribe to a satellite service, although the telephone companies are beginning to gain traction as an alternative to cable or satellite systems.

Networks. Networks, also commonly referred to as television channels, bring together television programs and package them into a branded schedule of entertainment. The two types of networks include broadcast networks, which are available to households through traditional broadcast free of charge, and pay television networks, which are only available to households through cable and satellite service providers. Most networks are owned by MSOs or media conglomerates. In order to secure the content necessary for a cohesive schedule, channels can produce programming internally and acquire third-party programming from production companies. Broadcast networks, which are regulated by the Federal Communications Commission, or the FCC, generate revenue primarily by selling advertising whereas pay television networks generate revenue by both selling advertising included in their programming and through subscription fees paid by service providers for the right to deliver the network to their customers.

To gain distribution to households, new networks need to establish carriage agreements with service providers. In order to initiate or improve carriage, many networks, and in particular those networks not affiliated with any major service provider, may need to offer launch incentives, which can include marketing support, upfront cash payments or other forms of incentives. These incentives or payments are typically made on a per-subscriber basis and generally before receiving any subscriber fee revenues.

Trends in Pay Television

Transition from Analog to Digital in Cable Systems. Cable distribution has been undergoing dramatic changes in the technologies that are used to deliver programming and services including digital transmission technology. Digital transmission enables improved picture and sound quality, faster signal transmission and additional channel capacity. Cable system operators can now offer additional services such as pay-per-view, video-on-demand and connectivity for Internet and telephone service. The FCC had previously adopted rules requiring that all television signals be transmitted in the digital format beginning in February 2009, which has recently been postponed to June 2009. In 2007, however, in an effort to ensure viewers will continue to receive television signals even after this digital transition, the FCC adopted rules requiring the service providers to carry both the analog and digital signals of certain channels for three years after the mandatory time to transmit in a digital signal. Although the digital transition will eventually give the service providers the capability to offer additional, improved services or channels to their subscribers, the requirement to carry both the analog and digital signals of certain channels may delay these benefits because of the increased bandwidth requirements for the certain channels that are required to be carried in both formats. Until this digital transition is fully complete, service providers may find it necessary to recapture their bandwidth by moving some channels that are currently carried in analog format to a lesser penetrated digital package or tier.

Emergence of High Definition Television. Digital transmission technology, whether used by cable or satellite systems, provides a platform for a new content category: high-definition television, which is commonly referred to as HD TV. HD TV offers a clearer and sharper picture and enhanced sound, as compared to standard definition

television. In addition, HD TV provides a wider field of vision than a standard definition television. In order to deliver HD TV, service providers have invested and are expected to continue to invest in HD-enabled infrastructure.

Channel Proliferation. Increased system capacity has enabled service providers to carry channels that offer programming on more focused subject matter and themes. These channels can capture an audience that is interested in a particular subject and chooses to watch dedicated and consistently themed programming. We believe the audience demographics of these specialized channels tend to be more highly concentrated than those of general entertainment or broadcast channels. As a result, such specialized channels offer advertisers an opportunity to communicate with a highly targeted and relevant audience.

Focused and Segmented Advertising. We believe many advertisers have become increasingly dissatisfied with the results of broadcasting to a broad audience and have become increasingly focused on maximizing the returns generated per advertising dollar. We believe that individual, specialized channels on pay television and broadband delivery of such content offer advertisers the opportunity to reach a more focused demographic as compared to broadcast television. To this end, we believe many advertisers have begun dedicating portions of their advertising budgets towards channels focused on targeted market segments whether delivered via television or on the internet via broadband.

Our Competitive Strengths

We believe the following strengths enable us to offer a network that is appealing to viewers, service providers and advertisers.

Authentic, Informative and Entertaining Outdoor Programming

We believe that Outdoor Channel is a preferred destination for television viewers seeking high-quality, traditional outdoor programming. We are differentiated from other television networks categorized as sports networks that offer outdoor programming through our focus on traditional outdoor activities such as hunting, fishing and shooting sports, as well as off-road motor sports and other outdoor related lifestyle programming. Our programming does not include team sports or “extreme sports” that other networks offer, which we believe dilutes the interest of our target audience. We believe this strategy has enabled us to build a loyal audience that tends to watch Outdoor Channel instead of other channels that offer a wide variety of outdoor programming.

Attractive Viewer Demographics

We believe that Outdoor Channel delivers a television audience that may not be as accessible through other networks and is particularly desirable for advertisers seeking to target a large and concentrated audience of outdoor enthusiasts. We believe the Outdoor Channel audience consists primarily of males between the ages of 18 and 54, representing a demographic for which many advertisers allocate a portion of their budgets. According to studies by Mediamark Research Inc., in 2008, approximately 80% of the viewers of Outdoor Channel were male. Nielsen indicates that in November 2008 the majority of our viewers in primetime did not watch competing specialized sports channels, such as The Golf Channel, Versus or Speed Channel.

Large Outdoor-Focused Market

We believe our programming appeals to traditional outdoor sports enthusiasts, including those who hunt and fish. According to the U.S. Fish and Wildlife Service’s latest survey conducted in 2006, there were estimated to be over 88 million people who participated in outdoor recreation. These people collectively spent in excess of \$122 billion pursuing outdoor activities including hunting, fishing and wildlife watching. We believe that our programming has strong appeal for viewers that may have participated in traditional outdoor sports in the past or desire to do so in the future. As we continue to increase our subscriber base, we believe that national accounts will advertise on Outdoor Channel to reach our focused audience of outdoor enthusiasts.

Extensive Service Provider Relationships

We have relationships or affiliate agreements with the majority of pay television service providers, including the 10 largest in the U.S. According to Nielsen, Outdoor Channel had approximately 29.5 million subscribers in December 2008. Based on our estimates, Outdoor Channel is currently available to, and could potentially be subscribed to by, over 85 million households. As our distribution agreements expire, we attempt to negotiate and renew such agreements. Although our agreements with some of the major distributors have expired, all of such distributors have continued to-date to carry our channel while we negotiate renewals.

Highly Leverageable Business Model

We anticipate that we will be able to transmit our programming to additional subscribers with little or no incremental delivery costs. We also believe that our programming, focused on traditional outdoor activities and recorded in natural settings, tends to be less expensive to produce than programming that requires elaborate sets, soundstages, highly compensated actors and a large production staff. Furthermore, the timeless nature of our outdoor programming allows us to rebroadcast and use our programming for additional purposes. Finally, as we continue to emerge as a leader in outdoor television programming, we believe the rates that advertisers are willing to pay will continue to increase, with little to no increase in associated costs.

Experienced and Committed Management Team

The members of our senior management team and our board of directors have significant experience in the cable television sector. We believe that this collective knowledge provides us with a better understanding of how best to continue improving Outdoor Channel and become a leading network. In addition, many of our senior management members participate in traditional outdoor activities, giving us a thorough knowledge of the market for the types of outdoor activities shown on our network.

Our Business Growth Strategies

The principal components of our strategy to grow our business are as follows.

Seek to Grow Our Subscriber Base

As a result of our focused content and affinity group marketing initiatives, we have been successful in increasing our subscriber base to approximately 29.5 million households in December 2008, as estimated by Nielsen, from our estimate of approximately 5.3 million households in 1999. We intend to seek new opportunities to continue to grow our subscriber base through the following initiatives:

- *Expand distribution relationships.* We intend to expand our marketing and sales efforts to grow our subscriber base. Through our existing relationships with carriers, we intend to offer service providers incentives to migrate our channel from premium packages to more affordable basic or expanded basic service packages with a greater number of subscribers. In addition, we plan to continue to pursue agreements with additional service providers. The incentives we intend to offer to service providers may include, but are not limited to, the following:
 - overall per subscriber rate reduction;
 - enhanced penetration discounts;
 - commitments to purchase cross channel promotion spots from the systems' advertising inventory;
 - upfront payments to service providers, in the form of cash or our securities;
 - local marketing support, such as promotional materials and sharing of costs for local advertising; and
 - training support for customer service representatives.
- *Adopt HD technology.* We believe that HD television complements our outdoor-themed content. The audio and visual characteristics of HD substantially enhance the experience and sense of adventure provided by

our programming. As a validation of the high quality, visually compelling nature of our HD programming, through an arrangement with Premier Retail Networks, Inc., we provide branded HD content being used to promote the sales of HD television sets in well known retail stores, such as Wal-Mart, Circuit City and Best Buy. We are ready to assist service providers as they migrate their offerings to HD TV by providing quality HD TV programming.

Refocus Marketing Efforts

First, we plan to expand our relationships with our affinity groups to leverage the power of such organizations in our efforts to grow and maintain our subscriber base. Second, we are expanding our on-air promotions to market our programs on our channel in an effort to enhance ratings. Finally, we are developing cross-channel advertisements to market our channel on other television networks.

Increase Advertising Sales Efforts

We plan to attract additional national advertisers to Outdoor Channel, and we believe it will become easier to do so if we are successful in our efforts to grow our subscriber base. Over the past several years, we have increased our efforts to demonstrate the benefits of advertising on Outdoor Channel to companies that advertise nationally. A significant portion of the increase in our advertising revenue over the last two years is attributable to increases in national advertising on Outdoor Channel. In 2008, national advertisers included Ace Hardware, Chevy, Firestone, Fram, Geico Insurance, Honda, John Deere, Optima, Ford and Crown Royal. We believe our viewer demographics are attractive to these and many other national advertisers. In an effort to increase our advertising revenue, we have committed significant resources to our New York and Chicago advertising sales offices and plan to increase our visibility to national advertisers.

We also offer national advertisers the opportunity to sponsor several hours of themed programming as a means to increase brand awareness and visibility to a targeted audience. These opportunities, which we refer to as block-programming sponsorships, enable advertisers to embed advertising messages and products in the programming itself in addition to purchasing traditional commercial spots. Since January 2007, Outdoor Channel continues to offer nightly programming blocks oriented around the following themes. Currently, the program blocks include: Mondays — Off-Road Motorsports; Tuesdays — Big Game Hunting; Wednesdays — Shooting; Fridays — Fishing; and Sundays — Big Game Hunting.

In addition, we believe we can capitalize on our position as the leader in traditional outdoor sports programming with regards to the endemic advertisers. For those manufacturers of products and providers of services targeted to hunters and fishermen, we believe we offer the best value and return for their advertising dollars.

Upgrade Quality of Programming

We have improved the quality of our programming, both technically as well as content, and our on-air look. All shows must meet a high minimum level of technical quality, and we have eliminated, and will continue to eliminate, those programs not meeting this standard. We are also aggressively seeking ideas for new programming content, while at the same time realizing that we must remain true to our core audience.

Create and Acquire More of Our Own Programs

Historically, we have contracted with third-party producers to provide a majority of our programming. These third-party producers retain ownership of the programming that we air and typically purchase from us a block of the advertising time available during the airing of their programming which they then resell to advertisers or use themselves. During 2008, we produced approximately 22% of the programming (excluding infomercials) we aired. In the future, we intend to produce more in-house programming and acquire ownership of programs produced by third parties by entering into exclusive, multi-year agreements. We believe this will allow us to retain and sell more advertising time for our own account at higher rates.

Establish Digital Media Presence

We plan to establish ourselves as the leading authority in outdoor activities and have launched our redesigned web site, and continue to improve it. Our web site includes broadband delivery of much of our video programming and provides the user with training and education regarding outdoor sports and recreation as well as the equipment and gear used in such activities. We believe that our web site will allow us to offer enhanced opportunities for our advertisers, and that by providing our content via broadband we can also establish an increased demand for our channel in those markets not currently receiving Outdoor Channel in a widely distributed programming package or tier.

Sources of Revenue

No single customer of ours accounts for greater than 10% of our total revenue. Our revenues from Outdoor Channel are derived primarily from two sources, advertising fees and subscriber fees, as discussed below.

Advertising Fees

We have two forms of advertising fees, short-form and long-form.

Short-form Advertising. We sell short-form advertisements on Outdoor Channel for commercial products and services, usually in 30 second increments. The total inventory for our short-form advertising consists of seven minutes per half hour. Of this available advertising time, one minute is reserved for the local service providers who may preempt the advertisement we insert into the program with a local advertisement. Of the remaining six minutes, we either sell to advertisers for our own account or to third-party producers who then resell this time to advertisers for their own account or use it themselves.

Advertisers purchase from us the one minute of advertising time per half hour that is reserved for the local service providers at a discount understanding that some of the service providers will superimpose their own spots over the advertising that we have inserted in the program, causing these advertisements to be seen by less than all of the viewers of any program. All of this advertising time is sold to direct response advertisers. Direct response advertisers rely on direct appeals to our viewers to purchase products or services from toll-free telephone numbers or web sites and generally pay lower rates than national advertisers.

For the advertising time that we retain for our own account, we endeavor to sell this time to national advertisers and their advertising agencies or endemic advertisers with products or services focused on traditional outdoor activities. The price we are able to charge for this advertising time is dependent on market conditions, perceived desirability of our viewers and, as estimated by Nielsen, the number of households subscribing to Outdoor Channel and actually viewing programs (ratings). If we are unable to sell all of this advertising time to national firms and agencies or endemic advertisers, we sell the remaining time to direct response advertisers. The majority of our revenue from short-form advertising is a result of arrangements with advertising agencies, for which we pay a commission. However, we have some relationships with marketers who buy directly from us.

For the advertising time that we sell to third-party producers, we receive revenue directly from the producers for the advertising time during their programs. This revenue is often at a lower rate than we may have received if we were to retain such time and sell it ourselves. The producers then resell this advertising time to others or use this time to advertise their own products or services.

Our advertising revenue tends to reflect seasonal patterns of advertising expenditures, which is common in the broadcast industry. Typically, our advertising revenue from short-form advertising during the second quarter is greater than the first quarter, and the third quarter is greater than the fourth quarter of each year.

Long-form Advertising. Long form advertisements are infomercials that we typically run for 30 minutes, many of which are during the overnight hours, with some during the weekday morning hours as well. In the future, we may reduce the programming time used for infomercials by replacing it with traditional outdoor programming.

Subscriber Fees

Cable and satellite service providers typically pay monthly subscriber fees to us for the right to broadcast our channel. Our service provider contracts typically range from 4 to 6 years, although some may be shorter, and contain

an annual increase in the monthly subscriber fees we charge. Our contracts also contain volume discounts for increased distribution by any one service provider. In order to stimulate distribution growth, we are offering a tiered rate card that provides lower subscriber fees for broader carriage on individual systems. This new rate card may cause our average monthly subscriber fee rates to decrease depending on the levels of carriage by the individual cable systems in the future. At present our subscriber fees average less than \$0.10 per subscriber per month.

Programming

We offer our programming in thematic blocks which, subject to change as circumstance dictate, will be nightly programming blocks oriented around the following themes: Mondays — Off-Road Motorsports; Tuesdays — Big Game Hunting; Wednesdays — Shooting; Fridays — Fishing; and Sundays — Big Game Hunting.

We either acquire or produce a program in-house or we license a program from a third party. We have been producing in-house programs since our founding in 1993. On average in 2008 we produced 32 regularly scheduled programs. Third-party programming license agreements typically provide that the producers retain ownership of the programming and that Outdoor Channel is entitled to air each episode several times per week for periods ranging from three months to three years. Substantially all of our programming contracts with third parties allow us exclusive U.S. rights and non-exclusive foreign rights during the term of the licensing agreement. In 2008, we produced approximately 22%, by number of titles, of our programs in-house and licensed the remaining 78% of our programs from third-party producers.

Sales and Marketing

Our sales and marketing efforts are focused on: (a) adding subscribers both through improved positioning with those service providers already carrying Outdoor Channel and through new agreements with service provider systems not currently carrying Outdoor Channel, (b) increasing demand from the viewing audience, or consumers, for both accessibility to Outdoor Channel and for viewership of our programming and (c) cultivating existing and pursuing new advertising clients.

Service Providers

Generally, our sales and marketing efforts, to increase distribution, focuses on developing strong relationships with existing and potential cable and satellite service providers through multiple points of contact including traditional sales visits, a dedicated customer service staff, an active local event team and the use of a dedicated web site. In addition to building strong relationships with our service providers, we are involved with a wide variety of traditional marketing efforts including advertising in trade publications, participating in industry trade shows, and supporting industry related associations. We anticipate that the widespread adoption of the digital and high definition products offered by our service providers will provide us with additional opportunities to grow and develop Outdoor Channel. In order to strengthen the sales efforts of these service providers, we offer a wide variety of market specific support including the opportunity to partner with local outdoor clubs, local promotions, direct mail campaigns and integration into existing consumer marketing initiatives.

Consumers

We market Outdoor Channel to potential viewers to increase brand awareness and viewership and to drive consumer requests for carriage, or for more accessible packaging, by the service providers. These consumer-directed marketing efforts are coordinated with and may be funded in part by the service providers. These efforts often include traditional marketing campaigns consisting of print, television and radio advertising. We also use our web site to market and promote Outdoor Channel through schedule information, show synopses, games and sweepstakes.

We have relationships with a number of outdoor clubs and organizations which provide opportunities for us to utilize their communication channels to reach their membership with targeted marketing messages. These relationships also allow Outdoor Channel to be associated with organizations that have credibility and relevance to outdoor enthusiasts. In addition, we purchase advertisements in magazines that specialize in content similar to Outdoor

Channel. We recently entered into an arrangement with Bonnier, the publisher of *Outdoor Life* and *Field and Stream*, to purchase such advertisements while at the same time allow Bonnier to obtain a presence on Outdoor Channel.

Advertisers

Sales and distribution of Outdoor Channel's advertising time are conducted by Outdoor Channel's in-house sales personnel. In 2002, we began to subscribe to Nielsen's services, and the availability of this information has become a critical tool in attracting advertisers. Our sales team sells directly to national advertising accounts, and continuously monitors available spots in an effort to maximize advertising revenue. To increase our visibility in the advertising community, we advertise in trade publications and on trade web sites directed toward advertising executives.

Segment Information

In 2008, we operated in a single segment.

Competition

We compete with other television channels for distribution, audience viewership and advertising sales.

Outdoor Channel competes with other television channels to be included in the offerings of each system provider and for placement in the packaged offerings having the most subscribers. In addition, each television channel focusing on a particular form of content competes directly with other channels offering similar programming. In the case of Outdoor Channel, we compete for distribution and viewers with other television networks aimed at our own target audience which we believe consists primarily of males between the ages of 18 and 54. We believe such competitors include Versus (formerly OLN), Spike TV, ESPN and others. It is possible that these or other competitors, many of which have substantially greater financial and operational resources than us, could revise their programming to offer more traditional outdoor activities such as hunting, fishing, shooting and other topics which are of interest to our viewers.

Certain technological advances, including the increased deployment of fiber optic cable, are expected to allow cable systems to greatly expand their present channel capacity. Such added capacity leaves room for additional programming of all types which could dilute our market share by enabling the emergence of channels with programming similar to that offered by Outdoor Channel and lead to increased competition for viewers from existing or new channels.

We also compete with television networks that generally have large subscriber bases and significant investments in, and access to, competitive programming sources. In addition, large cable companies have the financial and technological resources to create and distribute their own channels. For instance, Versus ("VS") is owned and operated by Comcast, the largest MSO in the U.S. We believe that while VS currently offers some blocks of similar programs, there is a substantial difference between the two networks. Outdoor Channel emphasizes traditional outdoor activities, such as fishing and hunting, while VS currently features a significant amount of programming concerning competitive, or extreme sports. As Outdoor Channel becomes more established, however, it is possible that other channels may attempt to offer programming similar to ours. For example, The Sportsman Channel and the Pursuit Channel have already begun offering programming similar to ours, and other nascent channels continue to indicate that their programming will eventually be similar to ours in content.

We compete for advertising revenue with other pay television networks, broadcast networks, and local over-the-air television stations. In addition, we compete for advertisers with other forms of advertising such as satellite and broadcast radio and the print media. We believe that many of these advertising avenues may not permit an advertiser to target the specific demographic audience who watches Outdoor Channel.

Employees

As of December 31, 2008, we had a total of 121 employees of which 119 were full time. None of our employees are covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

Recent Events

On January 12, 2009, we entered into and completed an asset purchase agreement with Winnercomm, Inc., an Oklahoma corporation and wholly-owned subsidiary of Winnercomm Holdings, Inc., a Delaware corporation, Cablecam, LLC, an Oklahoma limited liability company, and Skycam, LLC, an Oklahoma limited liability company, pursuant to which we purchased certain assets and assumed certain liabilities. Such assets relate to the production, development and marketing of sports programming and aerial camera systems. The purchased assets consist of equipment, intellectual property, accounts receivable and other assets related to the businesses of the sellers. In connection with the purchase of these assets, we hired 135 new employees.

Government Regulation

Our operations are subject to various government regulations. The operations of cable television systems, satellite distribution systems and broadcast television stations also are subject to the Communications Act of 1934, as amended, and to regulatory supervision by the FCC. Our uplink facility in Temecula, California is licensed by the FCC and must be operated in conformance with the terms and conditions of that license. The license is also subject to periodic renewal and ongoing regulatory requirements.

Local Cable Regulation

Cable television systems that carry our programming are regulated by municipalities or other local or state government authorities which have the jurisdiction to grant and to assign franchises and to negotiate generally the terms and conditions of such franchises, including rates for basic service charged to subscribers, except to the extent that such jurisdiction is preempted by federal law. Any such rate regulation could place downward pressure on the potential subscriber fees we can earn.

Federal Cable Regulation

In 1992, Congress enacted the Cable Television Consumer Protection and Competition Act of 1992, or the 1992 Cable Act, which provides, among other things, for a “must-carry” or “retransmission consent” regime for local broadcast stations, requiring carriage of certain broadcast stations and consideration to other broadcast stations for retransmission of their signals. The Cable Communication Policy Act of 1984 requires cable television systems with 36 or more “activated” channels to reserve a percentage of such channels for commercial use by unaffiliated third parties and permits franchise authorities to require channel capacity, equipment and facilities for public educational and government access channels.

In response to the 1992 Cable Act, the FCC adopted regulations prohibiting programmers in which cable operators have an “attributable interest” from discriminating between cable operators and their competitors, or among cable operators, and for increased competition in video programming distribution (both within the cable industry and between cable and competing video distributors). The 1992 Cable Act also directed the FCC to adopt regulations limiting the percentage of nationwide subscribers any one cable system operator may serve and the carriage by cable systems and other video distributors of affiliated programming services. Although the FCC adopted such regulations, they were invalidated by a United States Court of Appeals in 2001. The FCC conducted a further proceeding to consider questions of cable ownership and, in December 2007, the FCC adopted a rule that prohibits cable operators from owning or having an attributable interest in cable systems which serve more than thirty percent of multichannel video programming subscribers nationwide. The FCC also is considering rules governing the number of channels which cable operators may devote to affiliated programming networks.

In addition, the 1992 Cable Act requires the FCC to establish regulations for the rates that cable operators subject to rate regulation may charge for basic cable service and certain other services. Rates are not regulated for cable systems which are subject to effective competition, as defined in the FCC’s regulations. The 1992 Cable Act also directed the FCC to establish guidelines for determining when cable programming may not be provided exclusively to cable operators. The FCC’s implementing regulations preclude virtually all exclusive programming contracts between cable operators and satellite programmers affiliated with any cable operator (unless the FCC first determines the contract serves the public interest) and generally prohibit a cable operator that has an attributable interest in a satellite programmer from improperly influencing the terms and conditions of sale to unaffiliated multi-

channel video programming distributors. Those rules had been scheduled to expire on October 5, 2007. However, in September 2007, the FCC extended the prohibition against exclusive contracts between cable operators and affiliated programmers until October 5, 2012. The FCC's decision to extend the prohibition against such exclusive contracts has been appealed to a federal court of appeals.

In 1996, Congress enacted a comprehensive rewrite of telecommunications law, modifying many of the provisions of the 1992 Cable Act. Among other things, the legislation allows the cable and telephone industries to compete in each other's markets and phased out federal cable rate regulation of non-basic services, such as the rates charged by cable operators to subscribers for the tiers in which our programming typically is carried. It also required the FCC to establish rules ensuring that video programming is fully accessible to the hearing impaired through closed captioning. The rules adopted by the FCC require substantial closed captioning over a six to ten year phase-in period, which began in 2000, with only limited exceptions.

Congress and the FCC may, in the future, adopt new laws, regulations and policies regarding a wide variety of matters which could affect Outdoor Channel. We are unable to predict the outcome of future federal legislation, regulation or policies, or the impact of any such laws, regulations or policies on Outdoor Channel's operations.

Other Regulations

In addition to the regulations applicable to the cable television industries in general, we are also subject to various local, state and federal regulations, including, without limitation, regulations promulgated by federal and state environmental, health and labor agencies.

Intellectual Property

"Outdoor Channel[®]" is a registered trademark of The Outdoor Channel, Inc. We have also filed for registration of other trademarks, none of which we consider material at this time. In addition, we rely on copyright protection of those programs that we own.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any materials we have filed with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the Public Reference Room. The Securities and Exchange Commission also maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information concerning issuers that file electronically with the Securities and Exchange Commission, including us. Our common stock is listed on The Nasdaq Global Market. We also maintain an internet site at <http://www.outdoorchannel.com> that contains information concerning us. Information included or referred to on our web site is not incorporated by reference in or otherwise a part of this report.

You may obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the Securities and Exchange Commission on our web site on the World Wide Web at <http://www.outdoorchannel.com> in the "Investor Relations" section. We will also provide without charge, upon written or oral request, a copy of any or all of the documents referred to above. Requests for such documents should be directed to Attention: General Counsel, 43445 Business Park Drive, Suite 103, Temecula, California 92590 (Telephone: (951) 699-6991).

ITEM 1A. RISK FACTORS.

Our business and operations are subject to a number of risks and uncertainties, and the following list should not be considered to be a definitive list of all factors that may affect our business, financial condition and future operating results and should be read in conjunction with the risks and uncertainties, including risk factors, contained in our other filings with the Securities and Exchange Commission. Any forward-looking statements made by us are made with the intention of obtaining the benefits of the "safe harbor" provisions of the Securities Litigation Reform

Act and a number of factors, including, but not limited to those discussed below, could cause our actual results and experiences to differ materially from the anticipated results or expectations expressed in any forward-looking statements.

Cable and satellite service providers could discontinue or refrain from carrying Outdoor Channel, or decide to not renew our distribution agreements, which could substantially reduce the number of viewers and harm our operating results.

The success of Outdoor Channel is dependent, in part, on our ability to enter into new carriage agreements and maintain existing agreements or arrangements with, and carriage by, satellite systems and multiple system operators', which we refer to as MSOs, affiliated regional or individual cable systems. Although we currently have arrangements or agreements with, and are being carried by, all the largest MSOs and satellite service providers, having such relationship or agreement with an MSO does not always ensure that an MSOs affiliated regional or individual cable systems will carry or continue to carry Outdoor Channel or that the satellite service provider will carry our channel. Under our current contracts and arrangements, our subsidiary The Outdoor Channel, Inc. or TOC typically offers satellite systems and cable MSOs, along with their cable affiliates, the right to broadcast Outdoor Channel to their subscribers, but not all such contracts or arrangements require that Outdoor Channel be offered to all subscribers of, or any tiers offered by, the service provider or a specific minimum number of subscribers. Because many of our prior carriage arrangements do not specify on which service levels Outdoor Channel is carried, such as analog versus basic digital, expanded digital or specialty tiers, or in which geographic markets Outdoor Channel will be offered, in many cases we have no assurance that Outdoor Channel will be carried and available to viewers of any particular MSO or to all satellite subscribers. In addition, under the terms of our agreements, the service providers could decide to discontinue carrying Outdoor Channel. Lastly, we are currently not under any long-term contract with some of the service providers that are currently distributing our channel. Our long-term distribution agreements with three of the major service providers, accounting for approximately 40% of our subscriber base as of December 2008, have expired as of that date, although we have renewed some of such agreements for a short period or continued such agreements on a month-to-month basis. If we are unable to renew these distribution agreements for a committed number of subscribers or for multi-year terms, we could lose, or be subject to a loss of, a substantial number of subscribers. If cable and satellite service providers discontinue or refrain from carrying Outdoor Channel, or decide to not renew our distribution agreement with them, this could reduce the number of viewers and harm our operating results.

If our channel is placed in unpopular program packages by cable or satellite service providers, or if service fees are increased for our subscribers, the number of viewers of our channel may decline which could harm our business and operating results.

We do not control the channels with which our channel is packaged by cable or satellite service providers. The placement by a cable or satellite service provider of our channel in unpopular program packages could reduce or impair the growth of the number of our viewers and subscriber fees paid by service providers to us. In addition, we do not set the prices charged by cable and satellite service providers to their subscribers when our channel is packaged with other television channels or offered by itself. The prices for the channel packages in which our channel is bundled, or the price for our channel by itself, may be set too high to appeal to individuals who might otherwise be interested in our network. Further, if our channel is bundled by service providers with networks that do not appeal to our viewers or is moved to packages with fewer subscribers, we may lose viewers. These factors may reduce the number of subscribers and/or viewers of our channel, which in turn would reduce our subscriber fees and advertising revenue.

A deterioration in general economic conditions may cause a decrease in, or hinder our ability to grow, our advertising revenues.

A slowing economy or recession may impact our advertisers' business activities which in turn could have an adverse effect on our advertising revenues. During prior economic slowdowns, many advertisers have reduced or slowed their advertising spending. If our advertisers decide to do so, our growth in advertising revenues may slow or our advertising revenues could decrease.

We may not be able to effectively manage our future growth or the integration of acquisitions, and our growth may not continue, which may substantially harm our business and prospects.

We have undergone rapid and significant growth in revenue and subscribers over the last several years. There are risks inherent in rapid growth and the pursuit of new strategic objectives, including among others: investment and development of appropriate infrastructure, such as facilities, information technology systems and other equipment to support a growing organization; hiring and training new management, sales and marketing, production, and other personnel and the diversion of management's attention and resources from critical areas and existing projects; and implementing systems and procedures to successfully manage growth, such as monitoring operations, controlling costs, maintaining effective quality and service, and implementing and maintaining adequate internal controls. We expect that additional expenditures will be required as we continue to upgrade our facilities. In addition, we may acquire other companies to supplement our business and the integration of such other operations may take some time in order to fully realize the synergies of such acquisitions. We cannot assure you that we will be able to successfully manage our growth, that future growth will occur or that we will be successful in managing our business objectives. We can provide no assurance that our profitability or revenues will not be harmed by future changes in our business. Our operating results could be harmed if such growth does not occur, or is slower or less profitable than projected.

We may not be able to grow our subscriber base at a sufficient rate to offset planned increased costs, decreased revenue or at all, and as a result our revenues and profitability may not increase and could decrease.

A major component of our financial growth strategy is based on increasing the number of subscribers to our channels. Growing our subscriber base depends upon many factors, such as the success of our marketing efforts in driving consumer demand for our channels; overall growth in cable and satellite subscribers; the popularity of our programming; our ability to negotiate new carriage agreements, or amendments to, or renewals of, current carriage agreements, and maintain existing distribution; plus other factors that are beyond our control. There can be no assurance that we will be able to maintain or increase the subscriber base of our channels on cable and satellite systems or that our current carriage will not decrease as a result of a number of factors or that we will be able to maintain our current subscriber fee rates. In particular, negotiations for new carriage agreements, or amendments to, or renewals of, current carriage agreements, are lengthy and complex, and we are not able to predict with any accuracy when such increases in our subscriber base may occur, if at all, or if we can maintain our current subscriber fee rates. If we are unable to grow our subscriber base or we reduce our subscriber fee rates, our subscriber and advertising revenues may not increase and could decrease. In addition, as we plan and prepare for such projected growth in our subscriber base, we plan to increase our expenses accordingly. If we are not able to increase our revenue to offset these increased expenses, and if our subscriber fee revenue decreases, our profitability could decrease.

We do not control the methodology used by Nielsen to estimate our subscriber base or television ratings, and changes, or inaccuracies, in such estimates could cause our advertising revenue to decrease.

Our ability to sell advertising is largely dependent on the size of our subscriber base and television ratings estimated by Nielsen. We do not control the methodology used by Nielsen for these estimates, and estimates regarding Outdoor Channel's subscriber base made by Nielsen is theirs alone and does not represent opinions, forecasts or predictions of Outdoor Channel Holdings, Inc. or its management. Outdoor Channel Holdings, Inc. does not by its reference to Nielsen or distribution of the Nielsen Universe Estimate imply its endorsement of or concurrence with such information. In particular, we believe that we may be subject to a wider difference between the number of subscribers as estimated by Nielsen and the number of subscribers reported by our cable and satellite MSOs than is typically expected because we are not fully distributed and are sometimes carried on poorly penetrated tiers. In addition, if Nielsen modifies its methodology or changes the statistical sample it uses for these estimates, such as the demographic characteristics of the households, the size of our subscriber base and our ratings could be negatively affected resulting in a decrease in our advertising revenue.

If we offer favorable terms or incentives to service providers in order to grow our subscriber base, our operating results may be harmed or your percentage of the Company may be diluted.

Although we currently have plans to offer incentives to service providers in an attempt to increase the number of our subscribers, we may not be able to do so economically or at all. If we are unable to increase the number of our subscribers on a cost-effective basis, or if the benefits of doing so do not materialize, our business and operating results would be harmed. In particular, it may be necessary to reduce our subscriber fees in order to grow or maintain our subscriber base. In addition, if we make any upfront cash payments to service providers for an increase in our subscriber base, our cash flow could be adversely impacted, and we may incur negative cash flow for some time. In addition, if we were to make such upfront cash payments or provide other incentives to service providers, we expect to amortize such amounts ratably over the term of the agreements with the service providers. However, if a service provider terminates any such agreement prior to the expiration of the term of such agreement, then under current accounting rules we may incur a large expense in that quarter in which the agreement is terminated equal to the remaining un-amortized amounts and our operating results could accordingly be adversely affected. In addition, if we offer equity incentives, the terms and amounts of such equity may not be favorable to us or our stockholders.

If, in our attempt to increase our number of subscribers, we structure favorable terms or incentives with one service provider in a way that would require us to offer the same terms or incentives to all other service providers, our operating results may be harmed.

Many of our existing agreements with cable and satellite service providers contain “most favored nation” clauses. These clauses typically provide that if we enter into an agreement with another service provider on more favorable terms, these terms must be offered to the existing service provider, subject to some exceptions and conditions. Future agreements with service providers may also contain similar “most favored nation” clauses. If, in our attempt to increase our number of subscribers, we reduce our subscriber fees or structure launch support fees or other incentives to effectively offer more favorable terms to any service provider, these clauses may require us to offer similar incentives to other service providers or reduce the effective subscriber fee rates that we receive from other service providers, and this could negatively affect our operating results.

Consolidation among cable and satellite operators may harm our business.

Cable and satellite operators continue to consolidate, making us increasingly dependent on fewer operators. If these operators fail to carry Outdoor Channel, use their increased distribution and bargaining power to negotiate less favorable terms of carriage or to obtain additional volume discounts, our business and operating results would suffer.

The cable and satellite television industry is subject to substantial governmental regulation for which compliance may increase our costs, hinder our growth and possibly expose us to penalties for failure to comply.

The cable television industry is subject to extensive legislation and regulation at the federal and local levels, and, in some instances, at the state level, and many aspects of such regulation are currently the subject of judicial proceedings and administrative or legislative proposals. Similarly, the satellite television industry is subject to federal regulation. Operating in a regulated industry increases our cost of doing business as a video programmer, and such regulation may in some cases also hinder our ability to increase our distribution. The regulation of programming services, cable television systems and satellite licensees is subject to the political process and has been in constant flux over the past decade. Further, material changes in the law and regulatory requirements are difficult to anticipate and our business may be harmed by future legislation, new regulation, deregulation or court decisions interpreting laws and regulations.

The FCC has adopted rules to ensure that cable television subscribers continue to be able to view local broadcast television stations during and after the transition to digital television. Federal law initially required that analog television broadcasting end on February 17, 2009, but such deadline has recently been extended to June 2009. In September 2007, the FCC established rules which will require cable operators make local television broadcast programming available to all subscribers. They may do so either by carrying each local station’s digital

signal in analog format or in digital format, provided that all subscribers are provided with the necessary equipment to view the station signals. This requirement will remain in effect until February 2012, and possibly longer, depending on a FCC review of the state of technology and the marketplace in the year prior to that date. These broadcast signal carriage requirements could reduce the available capacity on cable systems to carry channels like Outdoor Channel. We cannot predict how these requirements will affect the Company.

The FCC may adopt rules which would require cable operators and other multichannel video programming providers to make available programming channels on an a la carte basis or as part of packages of “family friendly” programming channels. We cannot predict whether such rules will be adopted or how their adoption would impact our ability to have the Outdoor Channel carried on cable and satellite multichannel programming distribution systems.

Our investments in adjustable rate securities are subject to risks which may affect the liquidity of these investments and could cause additional impairment charges.

As of December 31, 2008, our investments in available-for-sale securities included \$6.5 million of high-grade (AAA/AA rated) auction-rate securities issued primarily by closed end preferred and municipalities. Beginning in February 2008, we were informed that there was insufficient demand at auction for our high-grade auction-rate securities. As a result, these affected securities are currently not liquid, and we could be required to hold them until they are redeemed by the issuer or to maturity. We may experience a similar situation with our remaining auction-rate securities. In the event we need to access the funds that are in an illiquid state, we will not be able to do so without a loss of principal, until a future auction on these investments is successful, the securities are redeemed by the issuer or they mature. The market for these investments is presently uncertain. If the credit ratings of the security issuers deteriorate and any decline in market value is determined to be other-than-temporary, we would be required to adjust the carrying value of the investment through an impairment charge. As of March 1, 2009, we had investments in four auction-rate securities which totaled \$6.5 million, net.

We may not be able to secure additional advertising accounts, and as a result, our revenues and profitability may be negatively impacted.

Our ability to secure additional advertising accounts depends upon the size of our audience, the popularity of our programming and the demographics of our viewers, as well as strategies taken by our competitors, strategies taken by advertisers and the relative bargaining power of advertisers. Competition for advertising accounts and related advertising expenditures is intense. We face competition for such advertising expenditures from a variety of sources, including other cable network companies and other media. We cannot assure you that our sponsors will pay advertising rates for commercial air time at levels sufficient for us to make a profit or that we will be able to attract new advertising sponsors or increase advertising revenues. If we are unable to attract advertising accounts in sufficient quantities, our revenues and profitability may be harmed.

We cannot be certain in the future that we will be able to report that our controls are without material weakness or to complete our evaluation of those controls in a timely fashion.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), and the rules and regulations promulgated by the SEC to implement Section 404, we are required to include in our Form 10-K a report by our management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting identified by management. As of December 31, 2008, based on management’s evaluation, our internal control over financial reporting was effective. However, if we fail to maintain an effective system of disclosure controls or internal control over financial reporting, we may discover material weaknesses that we would then be required to disclose. We may not be able to accurately or timely report on our financial results, and we might be subject to investigation by regulatory authorities. This could result in a loss of investor confidence in the accuracy and completeness of our financial reports, which may have an adverse effect on our stock price.

In addition, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the preparation and presentation of financial statements. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Expenses relating to programming costs are generally increasing and a number of factors can cause cost overruns and delays, and our operating results may be adversely impacted if we are not able to successfully recover the costs of developing and acquiring new programming.

The average cost of programming has increased for the cable industry and such increases are likely to continue. We plan to build our programming library through the acquisition of long-term broadcasting rights from third party producers, in-house production and outright acquisition of programming, and this may lead to increases in our programming costs. The development, production and editing of television programming requires a significant amount of capital and there are substantial financial risks inherent in developing and producing television programs. Actual programming and production costs may exceed their budgets. Factors such as labor disputes, death or disability of key spokespersons or program hosts, damage to master tapes and recordings or adverse weather conditions may cause cost overruns and delay or prevent completion of a project. If we are not able to successfully recover the costs of developing or acquiring programming through increased revenues, whether the programming is produced by us or acquired from third-party producers, our business and operating results will be harmed.

Our operating results may vary significantly, and historical comparisons of our operating results are not necessarily meaningful and should not be relied upon as an indicator of future performance.

Our operations are influenced by many factors. These factors may cause our financial results to vary significantly in the future and our operating results may not meet the expectations of securities analysts or investors. If this occurs, the price of our stock may decline. Factors that can cause our results to fluctuate include, but are not limited to:

- carriage decisions of cable and satellite service providers;
- demand for advertising, advertising rates and offerings of competing media;
- changes in the growth rate of cable and satellite subscribers;
- cable and satellite service providers' capital and marketing expenditures and their impact on programming offerings and penetration;
- seasonal trends in viewer interests and activities;
- pricing, service, marketing and acquisition decisions that could reduce revenues and impair quarterly financial results;
- the mix of cable television and satellite-delivered programming products and services sold and the distribution channels for those products and services;
- our ability to react quickly to changing consumer trends;
- increased compensation expenses resulting from the hiring or promotion of highly qualified employees;
- specific economic conditions in the cable television and related industries; and
- changing regulatory requirements.

Due to the foregoing and other factors, many of which are beyond our control, our revenue and operating results vary from period to period and are difficult to forecast. Our expense levels are based in significant part on our expectations of future revenue. Therefore, our failure to meet revenue expectations would seriously harm our business, operating results, financial condition and cash flows. Further, an unanticipated decline in revenue for a particular calendar quarter may disproportionately affect our profitability because our expenses would remain relatively fixed and would not decrease correspondingly.

Changes to financial accounting standards or our accounting estimates may affect our reported operating results.

We prepare our financial statements to conform to accounting principles generally accepted in the United States of America which are subject to interpretations by the Financial Accounting Standards Board, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. Accounting policies affecting many other aspects of our business, including rules relating to business combinations and employee share-based compensation, have recently been revised or are under review. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. In addition, our preparation of financial statements in accordance with GAAP requires that we make estimates, judgments and assumptions that affect the recorded amounts of assets and liabilities, disclosure of those assets and liabilities at the date of the financial statements and the recorded amounts of revenue and expenses during the reporting period. A change in the facts and circumstances surrounding those estimates, including the interpretation of the terms and conditions of our contractual obligations, could result in a change to our estimates and could impact our operating results.

If we fail to develop and distribute popular programs, our viewership would likely decline, which could cause advertising and subscriber fee revenues to decrease.

Our operating results depend significantly upon the generation of advertising revenue. Our ability to generate advertising revenues is largely dependent on our Nielsen ratings, which estimates the number of viewers of Outdoor Channel, and this directly impacts the level of interest of advertisers and rates we are able to charge. If we fail to program popular shows that maintain or increase our current number of viewers, our Nielsen ratings could decline, which in turn could cause our advertising revenue to decline and adversely impact our business and operating results. In addition, if we fail to program popular shows the number of subscribers to our channel may also decrease, resulting in a decrease in our subscriber fee and advertising revenue.

The market in which we operate is highly competitive, and we may not be able to compete effectively, particularly against competitors with greater financial resources, brand recognition, marketplace presence and relationships with service providers.

We compete for viewers with other established pay cable television and broadcast networks, including Versus (formerly OLN), Spike TV, ESPN2 and others. If these or other competitors, many of which have substantially greater financial and operational resources than us, significantly expand their operations with respect to outdoor-related programming or their market penetration, our business could be harmed. In addition, certain technological advances, including the deployment of fiber optic cable, which are already substantially underway, are expected to allow cable systems to greatly expand their current channel capacity, which could dilute our market share and lead to increased competition for viewers from existing or new programming services. In addition, the satellite distributors generally have more bandwidth capacity than cable distributors allowing them to possibly provide more channels offering the type of programming we offer.

We also compete with television network companies that generally have large subscriber bases and significant investments in, and access to, competitive programming sources. In some cases, we compete with cable and satellite service providers that have the financial and technological resources to create and distribute their own television networks, such as Versus, which is owned and operated by Comcast. In order to compete for subscribers, we may be required to reduce our subscriber fee rates or pay either launch fees or marketing support or both for carriage in certain circumstances in the future which may harm our operating results and margins. We may also issue our securities from time to time in connection with our attempts for broader distribution of Outdoor Channel and the number of such securities could be significant. We compete for advertising sales with other pay television networks, broadcast networks, and local over-the-air television stations. We also compete for advertising sales with satellite and broadcast radio and the print media. We compete with other cable television networks for subscriber fees from, and affiliation agreements with, cable and satellite service providers. Actions by the Federal Communications Commission, which we refer to as the FCC, and the courts have removed certain of the impediments to entry by local telephone companies into the video programming distribution business, and other impediments could be

eliminated or modified in the future. These local telephone companies may distribute programming that is competitive with the programming provided by us to cable operators.

Changes in corporate governance and securities disclosure and compliance practices have increased and may continue to increase our legal compliance and financial reporting costs.

The Sarbanes-Oxley Act of 2002 required us to change or supplement some of our corporate governance and securities disclosure and compliance practices. The Securities and Exchange Commission and Nasdaq have revised, and continue to revise, their regulations and listing standards. These developments have increased, and may continue to increase, our legal compliance and financial reporting costs.

The satellite infrastructure that we use may fail or be preempted by another signal, which could impair our ability to deliver programming to our cable and satellite service providers.

Our ability to deliver programming to service providers, and their subscribers, is dependent upon the satellite equipment and software that we use to work properly to distribute our programming. If this satellite system fails, or a signal with a higher priority replaces our signal, which is determined by our agreement with the owner of the satellite, we could lose our signal for a period of time. A loss of our signal could harm our reputation and reduce our revenues and profits.

Natural disasters and other events beyond our control could interrupt our signal.

Our systems and operations may be vulnerable to damage or interruption from earthquakes, tornadoes, floods, fires, power loss, telecommunication failures and similar events. They also could be subject to break-ins, sabotage and intentional acts of vandalism. Since our production facilities for Outdoor Channel are all located in Temecula, California, our Cablecam, Inc. operations are located in Chatsworth, California, and all of our Winnercomm, Inc. and Skycam, Inc. operations are in Tulsa, Oklahoma, the results of such events could be particularly disruptive because we do not have readily available alternative facilities from which to conduct our respective businesses. Our business interruption insurance may not be sufficient to compensate us for losses that may occur. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our facilities could result in interruptions in our services. Interruptions in our services could harm our reputation and reduce our revenues and profits.

Seasonal increases or decreases in advertising revenue may negatively affect our business.

Seasonal trends are likely to affect our viewership, and consequently, could cause fluctuations in our advertising revenues. Our business reflects seasonal patterns of advertising expenditures, which is common in the broadcast industry. For this reason, fluctuations in our revenues and net income could occur from period to period depending upon the availability of advertising revenues. Due, in part, to these seasonality factors, the results of any one quarter are not necessarily indicative of results for future periods, and our cash flows may not correlate with revenue recognition.

We may be unable to access capital, or offer equity as an incentive for increased subscribers or for acquisitions, on acceptable terms to fund our future growth and operations.

Our future capital and subscriber growth requirements will depend on numerous factors, including the success of our efforts to increase advertising revenues, the amount of resources devoted to increasing distribution of Outdoor Channel, acquiring and producing programming and our aerial camera business. As a result, we could be required to raise substantial additional capital through debt or equity financing or offer equity as an incentive for increased distribution or in connection with an acquisition. To the extent that we raise additional capital through the sale of equity or convertible debt securities, or offer equity incentives for subscriber growth or acquisitions, the issuance of such securities could result in dilution to existing stockholders. If we raise additional capital through the issuance of debt securities, the debt securities would have rights, preferences and privileges senior to holders of common stock and the terms of such debt could impose restrictions on our operations. We cannot assure you that additional capital, if required, will be available on acceptable terms, or at all. If we are unable to obtain additional capital, or offer equity incentives for subscriber growth or acquisitions, our current business strategies and plans and ability to fund future operations may be harmed.

We may not be able to attract and retain key personnel.

Our success depends to a significant degree upon the continued contributions of the principal members of our sales, marketing, production and management personnel, many of whom would be difficult to replace. Other than our CEO, Roger L. Werner, Jr., none of our employees are under contract, and all of our employees are “at-will.” Any of our officers or key employees could leave at any time, and we do not have “key person” life insurance policies covering any of our employees. The competition for qualified personnel has been strong in our industry. This competition could make it more difficult to retain our key personnel and to recruit new highly qualified personnel. The loss of Perry T. Massie, our Chairman of the Board, Roger L. Werner, Jr., our CEO and President, Thomas E. Hornish, our COO and General Counsel, Shad L. Burke, our Chief Financial Officer or Jim Wilburn, CEO of our wholly owned subsidiary Winnercomm, Inc., could adversely impact our business. To attract and retain qualified personnel, we may be required to grant large option or other share-based incentive awards, which may be highly dilutive to existing stockholders. We may also be required to pay significant base salaries and cash bonuses to attract and retain these individuals, which payments could harm our operating results. If we are not able to attract and retain the necessary personnel we may not be able to implement our business plan.

New video recording technologies may reduce our advertising revenue.

A number of new personal video recorders, such as TiVo® in the United States, have emerged in recent years. These recorders often contain features allowing viewers to watch pre-recorded programs without watching advertising. The effect of these recorders on viewing patterns and exposure to advertising could harm our operations and results if our advertisers reduce the advertising rates they are willing to pay because they believe television advertisements are less effective with these technologies.

Cable and satellite television programming signals have been stolen or could be stolen in the future, which reduces our potential revenue from subscriber fees and advertising.

The delivery of subscription programming requires the use of conditional access technology to limit access to programming to only those who subscribe to programming and are authorized to view it. Conditional access systems use, among other things, encryption technology to protect the transmitted signal from unauthorized access. It is illegal to create, sell or otherwise distribute software or devices to circumvent conditional access technologies. However, theft of cable and satellite programming has been widely reported, and the access or “smart” cards used in cable and satellite service providers’ conditional access systems have been compromised and could be further compromised in the future. When conditional access systems are compromised, we do not receive the potential subscriber fee revenues from the cable and satellite service providers. Further, measures that could be taken by cable and satellite service providers to limit such theft are not under our control. Piracy of our copyrighted materials could reduce our revenue from subscriber fees and advertising and negatively affect our business and operating results.

Because we expect to become increasingly dependent upon our intellectual property rights, our inability to protect those rights could negatively impact our ability to compete.

We currently produce and own approximately 22% of the programs we air on Outdoor Channel (exclusive of infomercials). In order to build a library of programs and programming distribution rights, we must obtain all of the necessary rights, releases and consents from the parties involved in developing a project or from the owners of the rights in a completed program. There can be no assurance that we will be able to obtain the necessary rights on acceptable terms, or at all or properly maintain and document such rights. In addition, protecting our intellectual property rights by pursuing those who infringe or dilute our rights can be costly and time consuming. If we are unable to protect our portfolio of trademarks, service marks, copyrighted material and characters, trade names and other intellectual property rights, our business and our ability to compete could be harmed.

We may face intellectual property infringement claims that could be time-consuming, costly to defend and result in our loss of significant rights.

Other parties may assert intellectual property infringement claims against us, and our products may infringe the intellectual property rights of third parties. From time to time, we receive letters alleging infringement of

intellectual property rights of others. Intellectual property litigation can be expensive and time-consuming and could divert management's attention from our business. If there is a successful claim of infringement against us, we may be required to pay substantial damages to the party claiming infringement or enter into royalty or license agreements that may not be available on acceptable or desirable terms, if at all. Our failure to license the proprietary rights on a timely basis would harm our business.

Some of our existing stockholders can exert control over us and may not make decisions that are in the best interests of all stockholders.

Our current officers, directors and greater than 5% stockholders together currently control a very high percentage of our outstanding common stock. As a result, these stockholders, acting together, may be able to exert significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, this concentration of ownership may delay or prevent a change in control of our company, even when a change may be in the best interests of stockholders. In addition, the interests of these stockholders may not always coincide with our interests as a company or the interests of other stockholders. Accordingly, these stockholders could cause us to enter into transactions or agreements that you would not approve.

The market price of our common stock has been and may continue to be subject to wide fluctuations.

Our stock has historically been and continues to be traded at relatively low volumes and therefore has been subject to price volatility. Various factors contribute to the volatility of our stock price, including, for example, low trading volume, quarterly variations in our financial results, increased competition and general economic and market conditions. While we cannot predict the individual effect that these factors may have on the market price of our common stock, these factors, either individually or in the aggregate, could result in significant volatility in our stock price during any given period of time. There can be no assurance that a more active trading market in our stock will develop. As a result, relatively small trades may have a significant impact on the price of our common stock. Moreover, companies that have experienced volatility in the market price of their stock often are subject to securities class action litigation. If we were the subject of such litigation, it could result in substantial costs and divert management's attention and resources. On March 14, 2008, the Company entered into a Rule 10b5-1 stock repurchase plan to repurchase up to \$10 million of its stock at specified prices and on August 12, 2008 increased such amount to \$15 million. All repurchases under the plan shall be in accordance with Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program commenced April 15, 2008 and ceased on October 10, 2008.

On February 25, 2009, the Company entered into a Rule 10b5-1 stock repurchase plan to repurchase up to \$10 million of its stock. The program will be effective March 3, 2009 through December 31, 2009 and all repurchases under the plan shall be in accordance with Rule 10b-18 of the Securities Exchange Act of 1934.

Anti-takeover provisions in our certificate of incorporation, our bylaws and under Delaware law may enable our incumbent management to retain control of us and discourage or prevent a change of control that may be beneficial to our stockholders.

Provisions of Delaware law, our certificate of incorporation and bylaws could discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. Furthermore, these provisions could prevent attempts by our stockholders to replace or remove our management. These provisions:

- allow the authorized number of directors to be changed only by resolution of our board of directors;
- establish a classified board of directors, providing that not all members of the board be elected at one time;
- require a 66⅔% stockholder vote to remove a director, and only for cause;

- authorize our board of directors to issue without stockholder approval blank check preferred stock that, if issued, could operate as a “poison pill” to dilute the stock ownership of a potential hostile acquirer to prevent an acquisition that is not approved by our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit stockholder action by written consent;
- establish advance notice requirements for stockholder nominations to our board of directors or for stockholder proposals that can be acted on at stockholder meetings;
- except as provided by law, allow only our board of directors to call a special meeting of the stockholders; and
- require a 66⅔% stockholder vote to amend our certificate of incorporation or bylaws.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may, unless certain criteria are met, prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a prescribed period of time.

Technologies in the cable and satellite television industry are constantly changing, and our failure to acquire or maintain state-of-the-art technology may harm our business and competitive advantage.

The technologies used in the cable and satellite television industry are rapidly evolving. Many technologies and technological standards are in development and have the potential to significantly transform the ways in which programming is created and transmitted. We cannot accurately predict the effects that implementing new technologies will have on our programming and broadcasting operations. We may be required to incur substantial capital expenditures to implement new technologies, or, if we fail to do so, may face significant new challenges due to technological advances adopted by competitors, which in turn could result in harming our business and operating results.

If our goodwill becomes impaired, we will be required to recognize a noncash charge which could have a significant effect on our reported net earnings.

A significant portion of our assets consists of goodwill. In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”, or SFAS 142, we test goodwill for impairment on September 30 of each year, and on an interim date if factors or indicators become apparent that would require an interim test. A significant downward revision in the present value of estimated future cash flows for a reporting unit could result in an impairment of goodwill under SFAS 142 and a noncash charge would be required. Such a charge could have a significant effect on our reported net earnings.

Future issuance by us of preferred shares could adversely affect the holders of existing shares, and therefore reduce the value of existing shares.

We are authorized to issue up to 25,000,000 shares of preferred stock. The issuance of any preferred stock could adversely affect the rights of the holders of shares of our common stock, and therefore reduce the value of such shares. No assurance can be given that we will not issue shares of preferred stock in the future.

We do not expect to pay dividends in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends will also depend on our financial condition, operating results, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, at the time of any potential payment of a cash dividend we may subject to contractual restrictions on, or prohibitions against, the payment of dividends.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own a building containing approximately 36,000 square feet, including 23,000 square feet of office space and 13,000 square feet of warehouse space, located at 43455 Business Park Drive in Temecula, California. We lease approximately 19,000 square feet of commercial property located at 43445 Business Park Drive in Temecula, California. We lease executive suite office space at 203 N. La Salle Street in Chicago, Illinois and at 555 5th Avenue in New York, New York. The property located at 43445 Business Park Drive is currently used as our headquarters. The property located at 43455 Business Park Drive houses our broadcast facility. The properties located in Chicago and New York are used as remote sales offices.

ITEM 3. LEGAL PROCEEDINGS.

On October 3, 2008 a previously terminated employee filed a complaint against the Company and one of its employees in the Superior Court of California in Riverside. This complaint alleges wrongful termination, violation of the California Family Rights Act, unfair business practices, discrimination, failure to accommodate, failure to engage in interactive process, failure to take reasonable steps to prevent discrimination, retaliation, and intentional infliction of emotional distress. This complaint seeks aggregate general damages in excess of \$10 million plus other indeterminable amounts plus fees and expenses. We intend to vigorously defend this lawsuit.

From time to time we are involved in litigation as both plaintiff and defendant arising in the ordinary course of business. In the opinion of management, the results of any pending litigation should not have a material adverse effect on our consolidated financial position or operating results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

The following table sets forth the high and low closing prices of our common stock as reported on The Nasdaq Global Market (formerly known as The Nasdaq National Market) for the periods indicated.

	<u>High</u>	<u>Low</u>
2008		
First Quarter	7.99	5.86
Second Quarter	8.09	6.98
Third Quarter	8.80	6.54
Fourth Quarter	8.93	4.82
2007		
First Quarter	13.79	9.74
Second Quarter	11.27	9.88
Third Quarter	11.86	8.46
Fourth Quarter	9.51	5.55

As of December 31, 2008, there were approximately 857 holders of record of our common stock.

DIVIDEND POLICY

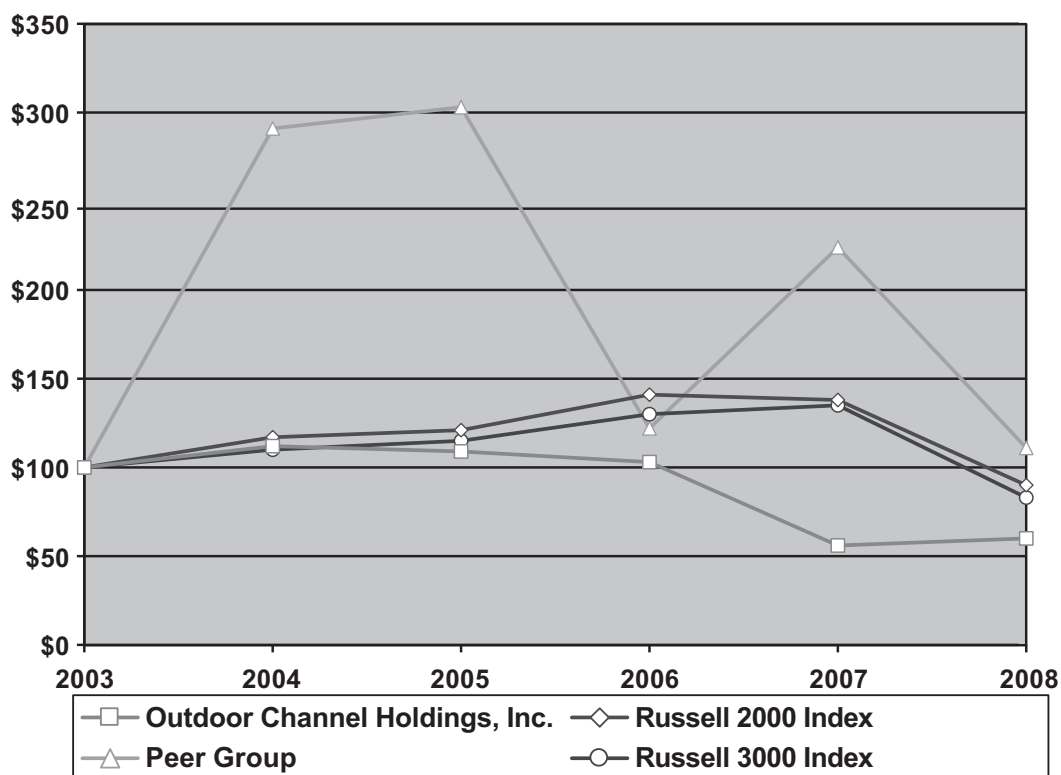
We have never declared or paid any cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. We currently anticipate that we will retain all of our future earnings for use in the development and expansion of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operation, financial condition and other factors as the board of directors, in its discretion, deems relevant.

PERFORMANCE GRAPH

The graph below shows the five-year cumulative total stockholder return assuming an investment of \$100 and the reinvestment of dividends, although dividends have not been declared on our common stock. The graph compares total stockholder returns of our common stock, of the Russell 2000 Index, Russell 3000 Index and of a Peer Group Index consisting of Crown Media Holdings, Inc. and ION Media. The graph assumes that \$100 was invested in our stock on December 31, 2003 and that the same amount was invested in the Russell 2000 Index, Russell 3000 Index and the Peer Group Index. Historical results are not necessarily indicative of future performance. Our common stock is currently traded on The Nasdaq Global Market (formerly known as The Nasdaq National Market). Prior to September 15, 2004, our common stock was traded on NASD's OTC Bulletin Board.

The stockholder return shown on the graph below is not necessarily indicative of future performance and the Company will not make or endorse any predictions as to future stockholder returns.

Outdoor Channel Holdings, Inc.
Performance Graph
Comparison of Cumulative Total Return*



* Assumes \$100 investment in Company's common stock on December 31, 2003

ITEM 6. SELECTED FINANCIAL DATA.

You should read the selected consolidated financial data presented below in conjunction with the audited consolidated financial statements appearing elsewhere in this report and the notes to those statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The selected consolidated financial data as of December 31, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2008 have been derived from our audited consolidated financial statements which appear elsewhere in this report. The selected consolidated financial data as of December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 have been derived from our audited consolidated financial statements which are not included in this report. The historical results are not necessarily indicative of the operating results to be expected in the future. All financial information presented has been prepared in United States dollars and in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

In 2004, we completed the acquisition of all of the outstanding shares of The Outdoor Channel, Inc. that we did not previously own. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Acquisition of the Minority Interest of The Outdoor Channel, Inc.” for a discussion regarding this transaction and the comparability of the information before and after such time.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share amounts)				
Income Statement Data:					
Revenues:					
Advertising	\$36,562	\$29,149	\$ 25,034	\$22,273	\$ 21,381
Subscriber fees	<u>17,495</u>	<u>17,297</u>	<u>17,686</u>	<u>15,432</u>	<u>13,391</u>
Total revenues	54,057	46,446	42,720	37,705	34,772
Income (loss) from operations	4,839	(3,441)	(13,598)	2,697	(39,928)
Income (loss) before income taxes and minority interest	6,360	(161)	(11,153)	3,593	(39,895)
Income tax provision (benefit)	<u>3,988</u>	<u>1,718</u>	<u>(3,876)</u>	<u>1,460</u>	<u>(16,135)</u>
Income (loss) before minority interest	2,372	(1,879)	(7,277)	2,133	(23,760)
Minority interest in net income of consolidated subsidiary	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>682</u>
Net income (loss) from continuing operations	2,372	(1,879)	(7,277)	2,133	(24,442)
Income from discontinued operations, net of tax.	<u>—</u>	<u>1</u>	<u>289</u>	<u>60</u>	<u>182</u>
Net income (loss) applicable to common stock.	<u>\$ 2,372</u>	<u>\$ (1,878)</u>	<u>\$ (6,988)</u>	<u>\$ 2,193</u>	<u>\$ (24,260)</u>
Earnings (loss) from continuing operations per common share:					
Basic.	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>(0.30)</u>	<u>\$ 0.10</u>	<u>\$ (1.44)</u>
Diluted	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>(0.30)</u>	<u>\$ 0.09</u>	<u>\$ (1.44)</u>
Earnings (loss) per common share:					
Basic.	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.28)</u>	<u>\$ 0.10</u>	<u>\$ (1.52)</u>
Diluted	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.28)</u>	<u>\$ 0.09</u>	<u>\$ (1.52)</u>
Weighted average number of common shares outstanding:					
Basic.	<u>25,369</u>	<u>26,027</u>	<u>24,556</u>	<u>21,423</u>	<u>15,998</u>
Diluted	<u>26,086</u>	<u>26,027</u>	<u>24,556</u>	<u>24,732</u>	<u>15,998</u>

	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 60,257	\$ 25,260	\$ 14,226	\$ 17,672	\$12,317
Investment in auction-rate and available-for-sale securities	6,456	46,155	42,144	38,830	741
Goodwill	43,160	43,160	43,816	44,457	44,457
Total assets	142,954	151,701	144,950	151,822	96,678
Total liabilities	6,545	5,124	6,004	12,809	6,187
Stockholders' equity	136,409	146,577	138,946	139,013	90,491

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Safe Harbor Statement

The information contained in this report may include forward-looking statements. Our actual results could differ materially from those discussed in any forward-looking statements. The statements contained in this report that are not historical are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements, without limitation, regarding our expectations, beliefs, intentions or strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provisions contained in those sections. Such forward-looking statements relate to, among other things: (1) expected revenue and earnings growth and changes in mix; (2) anticipated expenses including advertising, programming, personnel and others; (3) Nielsen Media Research, which we refer to as Nielsen, estimates regarding total households and cable and satellite homes subscribing to and viewers (ratings) of Outdoor Channel; and (4) other matters. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

These statements involve significant risks and uncertainties and are qualified by important factors that could cause our actual results to differ materially from those reflected by the forward-looking statements. Such factors include but are not limited to risks and uncertainties which are discussed above under "Item 1A Risk Factors" and other risks and uncertainties discussed elsewhere in this report. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this Form 10-K and in our other filings with the Securities and Exchange Commission. For these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements in Section 27A of the Securities Act and Section 21E of the Exchange Act.

General

In April 2007 our Board of Directors, after considering reports of consultants and on-going analysis of management, decided that the operations of the Membership Division, comprised of GPAA, LLC and LDMA-AU, Inc., was no longer strategic to the core business of Outdoor Channel Holdings. We applied the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") to the Membership Division's assets and liabilities classifying them as assets and liabilities of discontinued operations. The sale of the Membership Division was for its net asset value and accordingly we have not adjusted its carrying value. The sale was consummated on April 24, 2007.

Prior to June 30, 2007, we had reported separate segment information in our filings for the operations of TOC and the Membership Division in the same format as reviewed by our Chief Operating Decision Maker. Due to the discontinued operations of the Membership Division, we now operate in a single segment.

Through our indirect wholly owned subsidiary, The Outdoor Channel, Inc. or TOC, we own and operate Outdoor Channel which is a national television network devoted primarily to traditional outdoor activities, such as

hunting, fishing and shooting sports, as well as off-road motor sports and other outdoor related lifestyle programming. Outdoor Channel Holdings, Inc. also wholly owns 43455 BPD, LLC that owns the building housing our broadcast facility.

Our revenues include advertising fees from advertisements aired on Outdoor Channel and subscriber fees paid by cable and satellite service providers that air Outdoor Channel. Advertising fees include fees paid by third-party programmers to purchase advertising time in connection with the airing of their programs on Outdoor Channel.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of financial statements.

Revenue Recognition

Advertising revenues for Outdoor Channel are recognized when the advertisement is aired. Subscriber fees for Outdoor Channel are recognized in the period the programming is aired by the distributor and collection is probable.

Broadcast and national television network advertising contracts may guarantee the advertiser a minimum audience for its advertisements over the term of the contracts. We provide the advertiser with additional advertising time if we do not deliver the guaranteed audience size. The amount of additional advertising time is generally based upon the percentage of shortfall in audience size. This requires us to make estimates of the audience size that will be delivered throughout the terms of the contracts. We base our estimate of audience size on information provided by ratings services and our historical experience. If we determine we will not deliver the guaranteed audience, an accrual for “make-good” advertisements is recorded as a reduction of revenue. The estimated make-good accrual is adjusted throughout the terms of the advertising contracts.

Long-Lived Assets and Goodwill

Long-lived assets, such as property and equipment, advertising customer relationships and trademarks, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses for assets to be held and used are then measured based on the excess, if any, of the carrying amounts of the assets over their estimated fair values. Long-lived assets to be disposed of in a manner that meets specific criteria are stated at the lower of their carrying amounts or fair values less costs to sell and are no longer depreciated.

We review goodwill for impairment annually and whenever events or changes in circumstance indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our only reporting unit to its carrying value. We determine the fair value of our reporting unit using the market approach. If the fair value of our reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to our reporting unit exceeds the fair value, then we must perform the second step in order to determine the implied fair value of the reporting unit’s goodwill and compare it to the carrying value of the reporting unit’s goodwill. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference.

Prepaid Programming Costs

We produce a portion of the programming we air on our channels in-house as opposed to acquiring the programming from third party producers. The cost of production is expensed when the show airs. As such, we have incurred costs for programming that is yet to air. These costs are accumulated on the balance sheet as “Prepaid programming costs.” Costs of specific shows are charged to programming expense based on anticipated airings, when the program airs and the related advertising revenue is recognized. At the time it is determined that a program will not likely air, we charge to expense any remaining costs recorded in prepaid programming costs.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness and trade publications regarding the financial health of our larger customers and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial condition of any of our customers deteriorated, whether due to customer specific or general economic issues, increases in the allowance may be made.

Share-Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), which requires us to record stock compensation expense for equity based awards granted, including stock options, for which expense will be recognized over the service period of the equity based award based on the fair value of the award, at the date of grant. SFAS 123R revises SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”.

We adopted the provisions of SFAS 123R using the modified prospective transition method. In accordance with this transition method, our consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123R. Under the modified prospective transition method, share-based compensation expense for 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Share-based compensation expense for all share-based compensation awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R using the Black-Scholes option-pricing model.

We account for stock options granted to non-employees using the fair value method. Compensation expense for options granted to non-employees has been determined in accordance with SFAS No. 123 and Emerging Issues Task Force or EITF, No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” and EITF No. 00-18 “Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees”, as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Compensation expense for options granted to non-employees is periodically remeasured as the underlying options vest and is recorded as expense and deferred compensation in the financial statements.

Deferred Tax Assets and Income Taxes

We account for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The income tax provision is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

With our adoption of SFAS 123R on January 1, 2006 we present, on a prospective basis, the tax benefits from exercise of stock options in excess of recognized expense as a cash flow from financing activities in the accompanying consolidated statement of cash flows rather than as a cash flow from operating activities, as was prescribed under accounting rules applicable through December 31, 2005. This requirement reduces the amount reflected as net cash provided by operating activities and increases net cash provided by financing activities. Total cash flows remained unchanged from that which would have been reported under prior accounting rules. We recognize such benefits only if they have been realized which we determine by following the tax law method, which provides that current deductions are recognized before realizing the benefits of our net operating loss carryforwards.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R applies prospectively to all business combination transactions for which the acquisition date is on or after January 1, 2009. The impact of our adoption of SFAS 141R will depend upon the nature and terms of business combinations, if any, that we consummate on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 clarifies the classification in a company’s consolidated balance sheet and the accounting for a disclosure of transactions between the company and holders of noncontrolling interest. SFAS 160 is effective for the Company as of January 1, 2009. Early adoption is not permitted. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

On January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements, and has been partially deferred for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows.

In addition, on January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. We did not elect to use the fair value option. Therefore, the adoption of SFAS 159 did not impact our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets, (“FSP No. 142-3”) that amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (“SFAS No. 142”). FSP No. 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS No. 141(R), Business Combinations. The FSP also requires enhanced disclosures when an intangible asset’s expected future cash flows are affected by an entity’s intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is applied prospectively. Early adoption is prohibited. We do not expect the adoption of FSP No. 142-3 to have a material impact on our consolidated results of operations, financial position or cash flows.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The current GAAP hierarchy, as set forth in the American Institute of Certified Public Accountants

(AICPA) Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles, has been criticized because (1) it is directed to the auditor rather than the entity, (2) it is complex, and (3) it ranks FASB Statements of Financial Accounting Concepts. The FASB believes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this Statement to achieve that result. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In October 2008, the FASB issued FSP 157-3 "Determining Fair Value of a Financial Asset in a Market That Is Not Active" (FSP 157-3). FSP 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows.

Comparison of Operating Results for the Years Ended December 31, 2008 and December 31, 2007

The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percent of total revenue (all dollar amounts are in thousands):

	2008	2007	Change		% of Total Revenue	
			\$	%	2008	2007
Revenues:						
Advertising	\$36,562	\$29,149	\$ 7,413	25.4%	67.6%	62.8%
Subscriber fees	17,495	17,297	198	1.1	32.4	37.2
Total revenues	54,057	46,446	7,611	16.4	100.0	100.0
Cost of services:						
Programming	6,903	5,814	1,089	18.7	12.8	12.5
Satellite transmission fees	1,971	2,504	(533)	(21.3)	3.6	5.4
Production and operations	5,892	4,740	1,152	24.3	10.9	10.2
Other direct costs	383	194	189	97.4	0.7	0.4
Total cost of services.	15,149	13,252	1,897	14.3	28.0	28.5
Other expenses:						
Advertising	3,317	4,705	(1,388)	(29.5)	6.1	10.1
Selling, general and administrative.	28,305	29,265	(960)	(3.3)	52.4	63.0
Depreciation and amortization	2,447	2,665	(218)	(8.2)	4.5	5.7
Total other expenses	34,069	36,635	(2,566)	(7.0)	63.0	78.9
Income (loss) from operations	4,839	(3,441)	8,280	(240.6)	8.9	(7.4)
Interest and other income, net	1,521	3,280	(1,759)	(53.6)	2.8	7.1
Income (loss) from continuing operations before income taxes.	6,360	(161)	6,521	NM	11.8	(0.3)
Income tax provision	3,988	1,718	2,270	132.1	7.4	3.7
Income (loss) from continuing operations	2,372	(1,879)	4,251	(226.2)	4.4	(4.0)
Income from discontinued operations, net of tax	—	1	(1)	(100.0)	—	—
Net income (loss)	\$ 2,372	\$ (1,878)	\$ 4,250	(226.3)%	4.4%	(4.0)%

NM = not meaningful
(percentages may not add due to rounding)

Overview — The Company's revenue increased 16% for the year ended December 31, 2008 as compared to the year ended December 31, 2007. This increase was due primarily to increased advertising revenue reflecting an increase in the rates charged for advertising and time buy rates charged to producers. Cost of services to provide our broadcast signal and programming increased 14% for the year ended December 31, 2008 as compared to the year ended December 31, 2007 due primarily to increases in programming expense and production and operation costs partially offset by reduced satellite transmission fees.

Operating expenses for the year ended December 31, 2008 decreased 7% as compared to the year ended December 31, 2007. This decrease was primarily due to decreased spending on advertising materials and programs and decreases in the selling, general and administrative expenses related to share-based compensation which were partially offset by increases in legal and accounting fees and compensation plans for senior executives and newly hired personnel. Interest and other income, net decreased 54% for the year ended December 31, 2008 as compared to the year ended December 31, 2007 due primarily to lower interest rates and lower average balances of investment in auction-rate and available-for-sale securities.

Revenues

Our revenues include revenues from advertising fees and subscriber fees. Advertising revenue is generated from the sale of advertising time on Outdoor Channel including advertisements shown during a program (also known as short-form advertising) and infomercials in which the advertisement is the program itself (also known as long-form advertising). Advertising revenue is also generated from fees paid by third party programmers that purchase advertising time in connection with the airing of their programs on Outdoor Channel. Subscriber fees are generated from cable and satellite service providers who pay monthly subscriber fees to us for the right to broadcast our channel.

Total revenues for the year ended December 31, 2008 were \$54,057,000, an increase of \$7,611,000, or 16.4%, compared to revenues of \$46,446,000 for the year ended December 31, 2007. The net increases were the result of changes in several items comprising revenue as discussed below.

Advertising revenue for the year ended December 31, 2008 was \$36,562,000, an increase of \$7,413,000 or 25.4% compared to \$29,149,000 for the year ended December 31, 2007. The increase in advertising revenue for the year ended December 31, 2008 principally reflects an increase in the rates charged for short-form advertising and an increase in the time buy rates charges to producers.

For December 2008, Nielsen estimated that Outdoor Channel had 29.5 million viewers compared to 30.6 million for the same period a year ago. Nielsen revises its estimate of the number of subscribers to our channel each month, and for March 2009 Nielsen's estimate is 30.0 million. Nielsen is the leading provider of television audience measurement and advertising information services worldwide, and its estimates and methodology are generally accepted and used in the advertising industry. Although we realize Nielsen's estimate is typically greater than the number of subscribers on which a network is paid by the service providers, we are currently experiencing a greater difference in these two different numbers of subscribers than we would expect. We anticipate this difference to decrease as we grow our total subscriber base. There can be no assurances that Nielsen will continue to report growth of its estimate of our subscribers and in fact at some point Nielsen might even report additional declines in our subscriber estimate. If that were to happen, we could suffer a reduction in advertising revenue.

Subscriber fees for the year ended December 31, 2008 were \$17,495,000, an increase of \$198,000 or 1.1% compared to \$17,297,000 for the year ended December 31, 2007. The increase in subscriber fees was primarily due to increases in the subscriber fee rate charged to new and existing service providers carrying Outdoor Channel and by an increase in subscribers at several service providers.

We are pursuing subscriber growth by utilizing various means including offering lower subscriber fees for broader distribution and payment of subscriber acquisition or launch support fees among other tactics. Such launch support fees are capitalized and amortized over the period that the pay television distributor is required to carry the newly acquired TOC subscriber. To the extent revenue is associated with the incremental subscribers, the amortization is charged to offset the related revenue. Any excess of launch support amortization over the related

subscriber fee revenue is charged to expense. If we are successful with these tactics, our net subscriber fee revenue may decrease over the short-term future.

Cost of Services

Our cost of services consists primarily of the cost of providing our broadcast signal and programming to the distributors for transmission to the consumer. Cost of services includes programming costs, satellite transmission fees, production and operations costs, and other direct costs. Total cost of services for the year ended December 31, 2008 was \$15,149,000, an increase of \$1,897,000 or 14.3%, compared to \$13,252,000 for the year ended December 31, 2007. As a percentage of revenues, total cost of services was 28.0% and 28.5% for the years ended December 31, 2008 and 2007, respectively.

Programming expenses for the year ended December 31, 2008 were \$6,903,000, an increase of \$1,089,000 or 18.7% compared to \$5,814,000 for year ended December 31, 2007. The increase was primarily a result of increased programming expenses associated with new shows and the write off of certain lower quality programs, partially offset by cancellations during the period.

Our policy is to charge costs of specific show production to programming expense over the expected airing period beginning when the program first airs. The cost of programming is generally first recorded as prepaid programming costs and is then charged to programming expense based on the anticipated airing schedule. The anticipated airing schedule has historically been over 2 or 4 quarters that generally does not extend over more than 2 years. As the anticipated airing schedule changes, the timing and amount of the charge to expense is prospectively adjusted accordingly. At the time we determine a program is unlikely to air or re-air, we charge programming expense with the remaining associated cost recorded in prepaid programming. We do not make any further expense or asset adjustments if in subsequent periods demand brings episodes to air that had previously been fully expensed, rather, we consider such events when we review our expected airings prospectively. Our programming costs per show are expected to increase as we continue to improve the quality of our in-house produced shows, and we expect our aggregate programming costs to increase somewhat from prior year levels. As our programming strategy evolves, we will reconsider the appropriate timing of the charge to expense of our programming costs.

Satellite transmission fees for the year ended December 31, 2008 were \$1,971,000, a decrease of \$533,000, or 21.3%, compared to \$2,504,000 for the year ended December 31, 2007. The decrease in satellite transmission fees for year ended December 31, 2008 was primarily due to lower monthly fees associated with our new satellite agreement which became effective in June 2008.

Production and operations costs for the year ended December 31, 2008 were \$5,892,000, an increase of \$1,152,000, or 24.3%, compared to \$4,740,000 for the year ended December 31, 2007. The increase in costs for the year ended December 31, 2008 relates primarily to an increase of approximately \$511,000 in broadband services and an increase of approximately \$488,000 in personnel and related compensation costs associated with increased production and programming.

Other direct costs for the year ended December 31, 2008 were \$383,000, an increase of \$189,000, or 97.4%, compared to \$194,000 for the year ended December 31, 2007. The increase principally relates to more expense being recognized through amortization of launch support during the year ended December 31, 2008 compared to the same period in 2007 because of less revenue being received upon renewal of our affiliation agreement from those service providers to whom we previously paid launch support. Other direct costs may increase over the foreseeable future. Such increases could result from the amortization of subscriber acquisition fees, also referred to as launch support fees, where the costs are in excess of the related subscriber revenue.

Other Expenses

Other expenses consist of the cost of advertising, selling, general and administrative expenses, and depreciation and amortization.

Total other expenses for the year ended December 31, 2008 were \$34,069,000, a decrease of \$2,566,000 or 7.0%, compared to \$36,635,000 for the year ended December 31, 2007. As a percentage of revenues, total other expenses were 63.0% and 78.9% for the years ended December 31, 2008 and 2007, respectively.

Advertising expenses for the year ended December 31, 2008 were \$3,317,000 a decrease of \$1,388,000 or 29.5% compared to \$4,705,000 for the year ended December 31, 2007. The decrease for the year ended December 31, 2008 was primarily due to expenses related to the launch of our new logo in 2007 that did not recur in 2008 and a decrease in spending on other advertising materials, programs and campaigns.

Selling, general and administrative expenses for the year ended December 31, 2008 were \$28,305,000, a decrease of \$960,000 or 3.3% compared to \$29,265,000 for the year ended December 31, 2007. As a percentage of revenues, selling, general and administrative expenses were 52.4% and 63.0% in the years ended December 31, 2008 and 2007, respectively. During the year ended December 31, 2007, we recognized approximately \$6,583,000 in share-based compensation related to two tranches of performance units granted to our Chief Executive Officer. Share-based compensation related to these two tranches of performance units was completely recognized during the year ended December 31, 2007 and no corresponding expense for performance units was recognized during the year ended December 31, 2008. This decrease was partially offset by increased legal and accounting fees of approximately \$578,000 related to Sarbanes-Oxley compliance costs, the transition of audit and tax service providers and increased use of outside legal services. Also offsetting this decrease was increased compensation related to revised compensation plans for our senior executives and newly hired personnel of approximately \$3,296,000 and increases related to annual marketing events during the period of approximately \$1,376,000 and an increase to our bad debt expense of approximately \$490,000.

We have added to our professional and support staff across all departments over the past year to support our initiatives in subscriber growth and in other areas such as accounting and finance. In addition to base salaries and bonuses, we utilize share-based compensation packages as incentives for our employees. We have generally utilized restricted stock grants as opposed to stock options or performance units. For tax purposes, the tax deduction for restricted stock, subject to the limitations on the deductibility of employee remuneration of Internal Revenue Code Section 162(m), is the fair market value of the Company's stock on the date the restrictions lapsed (e.g. vesting). Although we may find it necessary to motivate prospective or current employees with additional cash and or equity awards, we anticipate that selling, general and administrative costs will remain relatively consistent over the foreseeable future.

Depreciation and amortization for the year ended December 31, 2008 were \$2,447,000, a decrease of \$218,000 or 8.2% compared to \$2,665,000 for the year ended December 31, 2007. The decrease primarily relates to our infomercial customer relations intangible asset becoming fully amortized as of December 31, 2007, partially offset by increased depreciation related to an increase in fixed assets.

Income (Loss) from Operations

Income (loss) from operations for the year ended December 31, 2008 was income of \$4,839,000, a change of \$8,280,000 compared to a loss of \$3,441,000 for the year ended December 31, 2007. As discussed above, the increase in our income from operations was driven by increased prices we are realizing for our advertising inventory and decreased compensation related to share-based performance units, offset by growth in our professional and support staff, professional fees and other charges. As we continue to strive to grow our subscriber base which involves increased advertising expenditures, subscriber rate relief for our carriage partners and the ongoing and planned payment of launch or advertising support, we will continue to incur increased expenses such as broadband, marketing and advertising that are unlikely to be immediately offset by revenues. As a result, we anticipate our operating margins may be constrained for the short-term future until scale is achieved. There can be no assurance that these strategies will be successful.

Interest and Other Income, Net

Interest and other income, net for the year ended December 31, 2008 was \$1,521,000, a decrease of \$1,759,000 compared to \$3,280,000 for the year ended December 31, 2007. The decrease was primarily due to lower interest rates and lower average balances of investment in auction-rate and available-for-sale securities and the recognition of other-than-temporary impairment charges related to certain auction-rate securities totaling \$336,000, partially offset by the recognition of a realized gain on sale of auction-rate securities of \$119,000 and a loss on sale of equity securities of \$44,000. In addition, lower interest rates decreased the interest earned on the average balances of our cash and cash equivalents. We anticipate a decline in interest earned in future periods.

Income (Loss) from Continuing Operations Before Income Taxes

Income (loss) from continuing operations before income taxes as a percentage of revenues was 11.8% for the year ended December 31, 2008 compared to (0.3)% for the year ended December 31, 2007.

Income Tax Provision

Income tax provision from continuing operations for the year ended December 31, 2008 was \$3,988,000, a change of \$2,270,000 as compared to \$1,718,000 for the year ended December 31, 2007. The income tax provision reflected in the accompanying consolidated statement of operations for the years ended December 31, 2008 and 2007 is different than that computed based on the applicable statutory Federal income tax rate of 34% primarily due to state taxes, the tax effect of accounting for share-based compensation and the limitations on the deductibility of executive compensation as provided for in Internal Revenue Code Section 162(m). The effective income tax rate was approximately 62.7% and 1,067% for the years ended December 31, 2008 and 2007, respectively. The change in the effective tax rate was primarily attributable to the change in pre-tax earnings from continuing operations for the year ended December 31, 2008.

Income (Loss) from Continuing Operations

Income (loss) from continuing operations for the year ended December 31, 2008 was \$2,372,000, a change of \$4,251,000 compared to a loss of \$(1,879,000) for the year ended December 31, 2007. The increase was due to the reasons stated above.

Income from Discontinued Operations, Net of Tax

We did not have discontinued operations during the year ended December 31, 2008, as the Membership Division was sold on April 24, 2007, the membership division contributed income from discontinued operations, net of tax of \$1,000 for the year ended December 31, 2007.

Net Income (Loss)

Net income (loss) for the year ended December 31, 2008 was a net income of \$2,372,000, an increase of \$4,250,000 compared to a net loss of \$(1,878,000) for the year ended December 31, 2007. The increase was due to the reasons stated above.

Comparison of Operating Results for the Years Ended December 31, 2007 and December 31, 2006

The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percent of total revenue (all dollar amounts are in thousands):

	2007	2006	Change		% of Total Revenue	
			\$	%	2007	2006
Revenues:						
Advertising	\$29,149	\$ 25,034	\$ 4,115	16.4%	62.8%	58.6%
Subscriber fees	<u>17,297</u>	<u>17,686</u>	<u>(389)</u>	(2.2)	<u>37.2</u>	<u>41.4</u>
Total revenues	<u>46,446</u>	<u>42,720</u>	<u>3,726</u>	8.7	<u>100.0</u>	<u>100.0</u>
Cost of services:						
Programming	5,814	8,320	(2,506)	(30.1)	12.5	19.5
Satellite transmission fees	2,504	2,550	(46)	(1.8)	5.4	6.0
Production and operations	4,740	4,046	694	17.2	10.2	9.5
Other direct costs	<u>194</u>	<u>67</u>	<u>127</u>	189.6	<u>0.4</u>	<u>0.1</u>
Total cost of services	<u>13,252</u>	<u>14,983</u>	<u>(1,731)</u>	(11.6)	<u>28.5</u>	<u>35.1</u>
Other expenses:						
Advertising	4,705	7,010	(2,305)	(32.9)	10.1	16.4
Selling, general and administrative	29,265	21,898	7,367	33.6	63.0	51.3
Impairment of amortizable intangible assets	—	9,540	(9,540)	(100.0)	—	22.3
Depreciation and amortization	<u>2,665</u>	<u>2,887</u>	<u>(222)</u>	(7.7)	<u>5.7</u>	<u>6.8</u>
Total other expenses	<u>36,635</u>	<u>41,335</u>	<u>(4,700)</u>	(11.4)	<u>78.9</u>	<u>96.8</u>
Income (loss) from operations	(3,441)	(13,598)	10,157	(74.7)	(7.4)	(31.9)
Interest and other income, net	<u>3,280</u>	<u>2,445</u>	<u>835</u>	34.2	<u>7.1</u>	<u>5.7</u>
Income (loss) from continuing operations before income taxes	(161)	(11,153)	10,992	(98.6)	(0.3)	(26.2)
Income tax provision (benefit)	<u>1,718</u>	<u>(3,876)</u>	<u>5,594</u>	(144.3)	<u>3.7</u>	<u>(9.1)</u>
Income (loss) from continuing operations	(1,879)	(7,277)	5,398	(74.2)	(4.0)	(17.1)
Income (loss) from discontinued operations, net of tax	<u>1</u>	<u>289</u>	<u>(288)</u>	(99.7)	<u>—</u>	<u>0.7</u>
Net income (loss)	<u>\$ (1,878)</u>	<u>\$ (6,988)</u>	<u>\$ 5,110</u>	(73.1)%	<u>(4.0)%</u>	<u>(16.4)%</u>

(percentages may not add due to rounding)

Revenues

Total revenues for the year ended December 31, 2007 were \$46,446,000, an increase of \$3,726,000, or 8.7%, compared to revenues of \$42,720,000 for the year ended December 31, 2006. The net increases were the result of changes in several items comprising revenue as discussed below.

Advertising revenue for the year ended December 31, 2007 was \$29,149,000, an increase of \$4,115,000 or 16.4% compared to \$25,034,000 for the year ended December 31, 2006. The increase in advertising revenue for the year ended December 31, 2007 principally reflects higher prices paid for advertising time partially offset by reduced revenue from sales of advertising inventory to third party programmers as a slightly higher percentage of our inventory was retained for in-house sales.

For December 2007, Nielsen estimated that Outdoor Channel had 30.6 million viewers compared to 29.7 million for the same period a year prior. Nielsen revises its estimate of the number of subscribers to our channel each month, and for March 2008 Nielsen's estimate was 30.2 million. Nielsen is the leading provider of television audience measurement and advertising information services worldwide, and its estimates and methodology are generally accepted and used in the advertising industry. Although we realize Nielsen's estimate is

typically greater than the number of subscribers on which a network is paid by the service providers, we are currently experiencing a greater difference in these two different numbers of subscribers than we would expect. We anticipate this difference to decrease as we grow our total subscriber base. There can be no assurances that Nielsen will continue to report growth of its estimate of our subscribers and in fact at some point Nielsen might even report additional declines in our subscriber estimate. If that were to happen, we could suffer a reduction in advertising revenue.

Subscriber fees for the year ended December 31, 2007 were \$17,297,000, a decrease of \$389,000 or 2.2% compared to \$17,686,000 for the year ended December 31, 2006. The decrease in subscriber fees was primarily due to a decrease in the contractual subscriber fee rate from both new and existing affiliates, partially offset by an increase in subscribers at several service providers.

We are pursuing subscriber growth utilizing various means including deployment of rate relief for new and existing subscribers and payment of subscriber acquisition or launch support fees among other tactics. Such launch support fees are capitalized and amortized over the period that the pay television distributor is required to carry the newly acquired TOC subscriber. To the extent revenue is associated with the incremental subscribers, the amortization is charged to offset the related revenue. Any excess of launch support amortization over the related subscriber fee revenue is charged to expense.

Cost of Services

Our cost of services consists primarily of the cost of providing our broadcast signal and programming to the distributors for transmission to the consumer. Cost of services includes programming costs, satellite transmission fees, production and operations costs, and other direct costs. Total cost of services for the year ended December 31, 2007 was \$13,252,000, a decrease of \$1,731,000 or 11.6%, compared to \$14,983,000 for the year ended December 31, 2006. As a percentage of revenues, total cost of services was 28.5% and 35.1% for the years ended December 31, 2007 and 2006, respectively. The improved rate reflects the impact of price increases noted above and reduced programming expense as more fully discussed below.

Programming expenses for the year ended December 31, 2007 were \$5,814,000, a decrease of \$2,506,000 or 30.1% compared to \$8,320,000 for year ended December 31, 2006. The decrease is principally a result of our decision to no longer program a second channel in 2007 as we did in 2006 and to increase the repeat rate within the schedule of our other in-house shows.

Our policy is to charge costs of specific show production to programming expense over the expected airing period beginning when the program first airs. The cost of programming is generally first recorded as prepaid programming costs and is then charged to programming expense based on the anticipated airing schedule. The anticipated airing schedule has historically been over 2 to 4 quarters that generally did not extend over more than 2 years. For 2007, the anticipated airing schedule is typically over 2 quarters but might be charged in more than one fiscal year. As the anticipated airing schedule changes, the timing and amount of the charge to expense is prospectively adjusted accordingly. At the time we determine a program is unlikely to air or re-air, we charge programming expense with the remaining associated cost recorded in prepaid programming. We do not make any further expense or asset adjustments if in subsequent periods demand brings episodes to air that had previously been fully expensed, rather, we consider such events when we review our expected airings prospectively. As noted above, we have implemented a new programming strategy which may include more airings per show including a greater number of repeat episodes within the quarter. As our programming strategy evolves, we will reconsider the appropriate timing of the charge to expense of our programming costs.

Satellite transmission fees for the year ended December 31, 2007 were \$2,504,000, a decrease of \$46,000, or 1.8%, compared to \$2,550,000 for the year ended December 31, 2006.

Production and operations costs for the year ended December 31, 2007 were \$4,740,000, an increase of \$694,000, or 17.2%, compared to \$4,046,000 for the year ended December 31, 2006. The increase in costs principally relates to costs associated with establishing our new broadband web site and costs related to our new broadcast facility.

Other direct costs for the year ended December 31, 2007 were \$194,000, an increase of \$127,000, or 189.6%, compared to \$67,000 for the year ended December 31, 2006. The increase principally relates to a greater number of subscribers for which we have paid launch support to acquire in the last half of 2006 resulting in more expense recognized through amortization in the year ended December 31, 2007 compared to the same period in 2006.

Other Expenses

Total other expenses for the year ended December 31, 2007 were \$36,635,000, a decrease of \$4,700,000 or 11.4%, compared to \$41,335,000 for the year ended December 31, 2006. As a percentage of revenues, total other expenses were 78.9% and 96.8% for the years ended December 31, 2007 and 2006, respectively. The decrease is a result of incurring an impairment of amortizable intangible assets in 2006 of \$9,540,000 for which we did not have a similar charge in the year ended December 31, 2007 and reduced spending on advertising in anticipation during the first half of the year to adopt a new logo and the elimination of our NASCAR sponsorship. The decrease in other expenses for the year ended December 31, 2007 was offset by several factors including \$6,583,000 of expense related to performance units granted to our Chief Executive Officer in the fourth quarter of 2006, increased legal fees related to negotiation of our carriage agreements and the sale of the Membership Division, increased accounting fees incurred in 2007 related to an increased financial reporting effort and increased professional fees related to consultants hired to help us execute our business plan as well as helping us assess our Membership Division segment.

Advertising expenses for the year ended December 31, 2007 were \$4,705,000 a decrease of \$2,305,000 or 32.9% compared to \$7,010,000 for the year ended December 31, 2006. We reduced our spending on advertising during 2007 related to our print media campaigns and our race program sponsorship. We have terminated our sponsorship of a NASCAR team, believing the expenditure will be more effectively deployed otherwise. Further, due to our re-branding initiative, we delayed other tactics during the first six months of 2007 to fully benefit from our new logo and programming initiatives which was launched during the third quarter of 2007.

Selling, general and administrative expenses for the year ended December 31, 2007 were \$29,265,000, an increase of \$7,367,000 or 33.6% compared to \$21,898,000 for the year ended December 31, 2006. As a percentage of revenues, selling, general and administrative expenses were 63.0% and 51.3% in the years ended December 31, 2007 and 2006, respectively. We granted our Chief Executive Officer two tranches of performance units of 400,000 shares each which vest upon our stock price reaching stipulated levels. We have calculated their fair value using a lattice model. The first tranche has an estimated value of \$4,515,000 and has an expected service period of 7.2 months. In the years ended December 31, 2007 and 2006, we recognized \$2,948,000 and \$1,567,000, respectively, related to this grant. The second grant of 400,000 performance units was calculated to have a fair value of \$4,474,000 and an expected service period of 13.3 months. In the years ended December 31, 2007 and 2006, we recognized \$3,634,000 and \$839,000, respectively, of compensation expense related to this grant. The remainder of the increase in selling, general and administrative fees related primarily to consulting fees pertaining to execution of our strategic plan, accounting fees for the audit of our evaluation of the effectiveness of our internal control over financial reporting in 2007 related to the 2006 fiscal year and related to increased filing requirements in 2007, increased legal fees related to negotiation of carriage relationships and the sale of the Membership Division and to other operating costs.

Impairment of intangible assets for the year ended December 31, 2006 was \$9,540,000. We did not incur such a charge in the year ended December 31, 2007. During the three months ended September 30, 2006, we engaged third party consultants to review our business practices and strategy. Among the areas reviewed was our approach to grow our subscriber base through our relationships with MSOs. Prior to this time our strategy was to focus on incremental growth opportunities without impacting our existing subscriber base. Our consultants completed a market survey and other steps they deemed appropriate. In September of 2006, the Board of Directors concluded that a complete revision of the terms of the relationships was necessary to meet the subscriber growth goals established by management. We reviewed our intangible assets for impairment. Among the components of the plan was subscriber rate relief in some form for both existing subscriber relationships and the incremental (if any) subscribers that might be added to our subscriber base as a result of the planned actions. Acknowledging the changed circumstances, we assessed fair value of our intangible assets and concluded that our MSO relationships asset had become fully

impaired. Accordingly we have written off the carrying value of \$9,540,000 during the year ended December 31, 2006.

We further concluded that the carrying values of our other intangible assets had not been impaired nor do we believe that the changed circumstances have affected the estimated lives of the amortizable intangible assets. We continue to believe that as of December 31, 2007 the carrying values have not been impaired nor have circumstances changed that affect their estimated lives. However, these estimates will continue to be reviewed during each reporting period to determine whether circumstances continue to support their estimated useful lives and fair value. Estimates are subject to risks and uncertainties, which could cause actual results to differ materially from those projected or implied in the determination of the fair value. A significant downward revision in the present value of estimated future cash flows for a reporting unit could result in an impairment of goodwill or the amortizable intangibles and a noncash charge would be required. Such a charge could have a significant effect on our reported net earnings.

Depreciation and amortization for the year ended December 31, 2007 were \$2,665,000, a decrease of \$222,000 or 7.7% compared to \$2,887,000 for the year ended December 31, 2006. The decrease was primarily due to amortization expense of our MSO relationship asset recorded prior to its becoming fully impaired and written off during the year ended 2006. This decrease was partially offset by a full year of depreciation related to the completion of our new broadcast facility as compared to only eight months of depreciation in the prior year.

Income (Loss) from Operations

Income (loss) from operations for the year ended December 31, 2007 was a loss of \$3,441,000, a change of \$10,157,000 compared to a loss of \$13,598,000 for the year ended December 31, 2006. As discussed above, the improvement in our loss from operations was driven by increased prices we are realizing for our advertising inventory, growth in our subscriber base and lower advertising costs as we delayed marketing activities to correspond with the launch of our new branding initiative, lower programming costs as we refined our broadcast airing schedule. These improvements in our operating results were offset by increased compensation related to our professional and support staff, professional fees and other charges. For the twelve month comparative periods we incurred an impairment charge related to our MSO relationship intangible asset in 2006 which did not recur in 2007. As we continue to strive to grow our subscriber base which involves increased advertising expenditures, subscriber rate relief for our carriage partners and the ongoing and planned payment of launch or advertising support, we will continue to incur increased expenses such as broadband, marketing and advertising that are unlikely to be immediately offset by revenues. As a result, we anticipate our operating margins will be constrained for the short-term future until scale is achieved. There can be no assurance that these strategies will be successful.

Interest and Other Income, Net

Interest and other income, net for the year ended December 31, 2007 was \$3,280,000, an increase of \$835,000 compared to \$2,445,000 for the year ended December 31, 2006. This improvement was primarily due to increased dividends and interest earned on our increased average balances of our investment in available-for-sale securities and cash and cash equivalents balances. Additionally, interest expense incurred in the year ended December 31, 2007 relates to the filing of our income tax returns in states in which we had nexus but previously had not filed our income tax returns. The interest expense incurred in the year ended December 31, 2006 relates to two term loans obtained in November 2005 with an original aggregate principal amount of \$4,950,000 with effective fixed interest rates of 6.59% and 6.35% which we repaid in October 2006.

Income (Loss) from Continuing Operations Before Income Taxes

Income (loss) from continuing operations before income taxes as a percentage of revenues was (0.3)% for the year ended December 31, 2007 compared to (26.1)% for the year ended December 31, 2006.

Income Tax Provision (Benefit)

Income tax provision from continuing operations for the year ended December 31, 2007 was \$1,718,000, a change of \$5,594,000 as compared to an income tax benefit from continuing operations of \$3,876,000 for the year

ended December 31, 2006. The increase was primarily due to the tax effect of accounting for share-based compensation in December 31, 2007 as compared to the amounts recognized to tax expense in the year ended December 31, 2006. The effective income tax rate was approximately 1,067% and (34.8%), for the years ended December 31, 2007 and 2006, respectively. The change in the effective income tax rate was primarily attributable to the change in pre-tax earnings from continuing operations for the year ended December 31, 2007.

Income (Loss) from Continuing Operations

Income (loss) from continuing operations for the year ended December 31, 2007 was \$(1,879,000), a change of \$5,398,000 compared to a loss of \$(7,277,000) for the year ended December 31, 2006. The decrease was due to the reasons stated above.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations, net of tax for the year ended December 31, 2007 was \$1,000, a change of \$288,000 compared to \$289,000 for the year ended December 31, 2006.

Net Income (Loss)

Net income (loss) for the year ended December 31, 2007 was \$1,878,000, a decrease of \$5,110,000 compared to \$6,988,000 for the year ended December 31, 2006. The decreases were due to the reasons stated above.

Liquidity and Capital Resources

We generated \$12,244,000 of cash from operating activities in the year ended December 31, 2008, compared to \$11,664,000 in the year ended December 31, 2007 and had a cash and cash equivalent balance of \$60,257,000 at December 31, 2008, an increase of \$34,997,000 from the balance of \$25,260,000 at December 31, 2007. The increase in cash from operating activities was due primarily to the surplus from operating activities for the year ended December 31, 2008. We also had short-term investments classified as available-for-sale securities of \$6,456,000 at December 31, 2008, a decrease of \$39,699,000 from the balance of \$46,155,000 at December 31, 2007. The investments at December 31, 2008 were comprised of auction-rate securities with interest rates that generally reset every 28 days. Net working capital decreased to \$70,250,000 at December 31, 2008, compared to \$80,507,000 at December 31, 2007.

As of December 31, 2008, we held \$6,456,000 of auction-rate securities. Auction-rate securities are investment vehicles with long-term or perpetual maturities which pay interest monthly at current market rates reset through a Dutch auction. Beginning in February 2008, the majority of auctions for these types of securities failed due to liquidity issues experienced in global credit and capital markets. Our auction-rate securities followed this trend and experienced multiple failed auctions due to insufficient investor demand. As there is a limited secondary market for auction-rate securities, we have been unable to convert our positions to cash. We do not anticipate being in a position to liquidate all of these investments until there is a successful auction or the security issuer redeems their security, and accordingly, have reflected our investments in auction-rate securities as non-current assets on our balance sheet. Due to these liquidity issues, we performed a discounted cash flow analysis to determine the estimated fair value of these investments. The assumptions used in preparing the models include, but are not limited to, interest rate yield curves for similar securities, market rates of returns, and the expected term of each security. In making assumptions of required rates of return, we considered risk-free interest rates and credit spreads for investments of similar credit quality. Our auction-rate security investments continue to pay interest according to their stated terms, are fully collateralized by underlying financial instruments (primarily closed end preferred and municipalities) and have maintained AAA/AA credit ratings despite the failure of the auction process. We believe that based on the Company's current cash, cash equivalents and investments in available-for-sale securities balances at December 31, 2008, the current lack of liquidity in the credit and capital markets will not have a material impact on our liquidity, cash flow, financial flexibility or our ability to fund our operations.

We continue to monitor the market for auction-rate securities and consider its impact (if any) on the fair value of our investments. If the current market conditions deteriorate further, or the anticipated recovery in fair values does not occur, we may be required to record additional impairment charges in future periods.

Net cash provided by investing activities was \$38,291,000 in the year ended December 31, 2008 compared to cash used by investing activities of \$1,843,000 for the year ended December 31, 2007. The increase in cash provided by investing activities related principally to the net difference of sales and purchases of short-term auction-rate and available-for-sale securities. Additional capital expenditures were for fixed asset replacements.

Cash used in financing activities was \$15,538,000 in the year ended December 31, 2008 compared to cash provided by financing activities of \$1,892,000 for the year ended December 31, 2007. The cash used by financing activities in the year ended December 31, 2008 was principally the cash used for the purchase and retirement of our common stock in connection with the stock repurchase plan and the purchase and retirement of treasury stock as employees used stock to satisfy withholding taxes related to the vesting of restricted shares. For the year ended December 31, 2007, cash provided by financing activities was principally the proceeds from the exercise of stock options partially offset by the purchase and retirement of treasury stock as employees used stock to satisfy withholding taxes related to vesting of restricted shares.

On October 2, 2007, the Board of Directors approved the renewal of the revolving line of credit agreement (the “Revolver”) with U.S. Bank N.A. (the “Bank”), extending the maturity date to September 5, 2009 and increasing the total amount which can be drawn upon under the Revolver from \$8,000,000 to \$10,000,000. Interest is payable beginning November 5, 2007, and on the same date of each consecutive month thereafter. The Revolver provides that the interest rate shall be LIBOR plus 1.25%. The Revolver was previously collateralized by substantially all of our assets. The renewed Revolver is unsecured. This credit facility contains customary financial and other covenants and restrictions, as amended on September 21, 2007, including a change of control provision, some of which are defined with non-GAAP provisions including elimination of the effects of noncash stock based employee compensation expense. As of December 31, 2008 and as of the date of this report, we did not have any amounts outstanding under this credit facility. This Revolver is guaranteed by TOC.

As of December 31, 2008, we had sufficient cash on hand and expected cash flow from operations to meet our short-term cash flow requirements. Management believes that our existing cash resources including cash on-hand and anticipated cash flows from operations will be sufficient to fund our operations at current levels and anticipated capital requirements through at least December 31, 2009. To the extent that such amounts are insufficient to finance our working capital requirements or our desire to expand operations beyond current levels, we could seek additional financing. There can be no assurance that equity or debt financing will be available if needed or, if available, will be on terms favorable to us.

We have included the contractual obligations assumed in the Winnercomm acquisition purchased in January 2009 in the following table.

A summary of our contractual obligations as of December 31, 2008 (In thousands):

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>After 5 Years</u>
Operating lease obligations	\$12,466	\$ 3,933	\$ 4,632	\$2,458	\$1,443
Purchase obligations	22,968	13,442	8,794	729	3
Other long-term liabilities	768	768	—	—	—
Total	<u>\$36,202</u>	<u>\$18,143</u>	<u>\$13,426</u>	<u>\$3,187</u>	<u>\$1,446</u>

Operating lease obligations principally relate to commitments for delivery of our signal via satellite and office leases. Purchase obligations relate to purchase commitments made for the acquisition of programming, advertising and promotion including magazine advertisements and radio show sponsorships, talent agreements, equipment or software maintenance, research services and other operating purchases. Other long-term liabilities represent our obligations to our Chief Executive Officer under his employment contract.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

At December 31, 2008 and 2007, our investment portfolio included fixed-income securities of \$6,456,000 and \$46,155,000, respectively. At December 31, 2008, all of our securities were auction-rate securities with long-term maturities. These securities are subject to interest rate risk and will decline in value if interest rates increase.

However, due to the amount of our investment portfolio, an immediate 10% change in interest rates would have no material impact on our financial condition, operating results or cash flows. Declines in interest rates over time will, however, reduce our interest income while increases in interest rates over time may increase our interest expense.

We do not have transactions denominated in currencies other than U.S. dollars and as a result we have no foreign currency exchange rate risk. The effect of an immediate 10% change in foreign exchange rates would have no material impact on our financial condition, operating results or cash flows.

As of December 31, 2008 and as of the date of this report, we did not have any outstanding borrowings. The rate of interest on our line-of-credit is variable, but we currently have no outstanding balance under this credit facility. Because of these reasons, an immediate 10% change in interest rates would not have a material, immediate impact on our financial condition, operating results or cash flows.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Outdoor Channel Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Outdoor Channel Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Outdoor Channel Holdings, Inc. and subsidiaries for the year ended December 31, 2006 was audited by other auditors whose report is dated March 16, 2007.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Outdoor Channel Holdings, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Outdoor Channel Holdings, Inc.'s and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2009

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors Outdoor Channel Holdings, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Outdoor Channel Holdings, Inc. and subsidiaries for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Outdoor Channel Holdings, Inc. and subsidiaries for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment."

The accompanying 2006 financial statements have been previously restated.

/s/ J.H. Cohn LLP

San Diego, California

March 16, 2007 (March 14, 2008 as to the effects of the restatement referred to above)

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

**Consolidated Balance Sheets
As of December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
	<small>(In thousands, except per share data)</small>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 60,257	\$ 25,260
Investments in available-for-sale securities	—	46,155
Accounts receivable, net of allowance for doubtful accounts of \$891 and \$302	9,448	8,299
Income tax refund receivable	—	224
Deferred tax assets, net	1,524	705
Prepaid programming costs	3,997	3,522
Other current assets	<u>1,333</u>	<u>1,175</u>
Total current assets	<u>76,559</u>	<u>85,340</u>
Property, plant and equipment, net	10,042	11,632
Amortizable intangible assets, net	142	313
Goodwill	43,160	43,160
Investments in auction-rate securities	6,456	—
Deferred tax assets, net	4,949	9,326
Deposits and other assets	<u>1,646</u>	<u>1,930</u>
Totals	<u>\$142,954</u>	<u>\$151,701</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,923	\$ 4,158
Accrued severance payments	25	257
Deferred revenue	205	261
Current portion of deferred obligations	126	143
Income taxes payable	30	—
Customer deposits	<u>—</u>	<u>14</u>
Total current liabilities	6,309	4,833
Accrued severance payments, net of current portion	—	22
Deferred obligations	<u>236</u>	<u>269</u>
Total liabilities	<u>6,545</u>	<u>5,124</u>
Commitments and contingencies — See Note 9		
Stockholders' equity:		
Preferred stock; \$0.001 par value; 25,000 shares authorized; none issued	—	—
Common stock, \$0.001 par value; 75,000 shares authorized: 25,246 and 26,870 shares issued and outstanding	25	27
Additional paid-in capital	163,300	175,570
Accumulated other comprehensive (loss)	(327)	(59)
Accumulated deficit	<u>(26,589)</u>	<u>(28,961)</u>
Total stockholders' equity	<u>136,409</u>	<u>146,577</u>
Totals	<u>\$142,954</u>	<u>\$151,701</u>

See Notes to Consolidated Financial Statements.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

**Consolidated Statements of Operations
For The Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(In thousands, except per share data)		
Revenues:			
Advertising	\$36,562	\$29,149	\$ 25,034
Subscriber fees	<u>17,495</u>	<u>17,297</u>	<u>17,686</u>
Total revenues	<u>54,057</u>	<u>46,446</u>	<u>42,720</u>
Cost of services:			
Programming	6,903	5,814	8,320
Satellite transmission fees	1,971	2,504	2,550
Production and operations	5,892	4,740	4,046
Other direct costs	<u>383</u>	<u>194</u>	<u>67</u>
Total cost of services	<u>15,149</u>	<u>13,252</u>	<u>14,983</u>
Other expenses:			
Advertising	3,317	4,705	7,010
Selling, general and administrative	28,305	29,265	21,898
Impairment of amortizable intangible assets	—	—	9,540
Depreciation and amortization	<u>2,447</u>	<u>2,665</u>	<u>2,887</u>
Total other expenses	<u>34,069</u>	<u>36,635</u>	<u>41,335</u>
Income (loss) from operations	4,839	(3,441)	(13,598)
Interest and other income, net	<u>1,521</u>	<u>3,280</u>	<u>2,445</u>
Income (loss) from continuing operations before income taxes	6,360	(161)	(11,153)
Income tax provision (benefit)	<u>3,988</u>	<u>1,718</u>	<u>(3,876)</u>
Income (loss) from continuing operations	2,372	(1,879)	(7,277)
Income from discontinued operations, net of tax	<u>—</u>	<u>1</u>	<u>289</u>
Net income (loss)	<u>\$ 2,372</u>	<u>\$ (1,878)</u>	<u>\$ (6,988)</u>
Basic earnings (loss) per common share data:			
From continuing operations	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.30)</u>
From discontinued operations	<u>\$ —</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Basic earnings per common share	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.28)</u>
Diluted earnings (loss) per common share data:			
From continuing operations	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.30)</u>
From discontinued operations	<u>\$ —</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>
Diluted earnings per common share	<u>\$ 0.09</u>	<u>\$ (0.07)</u>	<u>\$ (0.28)</u>
Weighted average number of common shares outstanding:			
Basic	<u>25,369</u>	<u>26,027</u>	<u>24,556</u>
Diluted	<u>26,086</u>	<u>26,027</u>	<u>24,556</u>

See Notes to Consolidated Financial Statements.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

**Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008, 2007 and 2006**

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Other</u>	<u>Deficit</u>	
			<u>Capital</u>	<u>Comprehensive</u>		
				<u>Income (Loss)</u>		
				(In thousands)		
Balance, December 31, 2007	26,870	\$27	\$175,570	\$ (59)	\$(28,961)	\$146,577
Comprehensive Income:						
Net income	—	—	—	—	2,372	2,372
Effect of change in fair value of available-for-sale securities	—	—	—	(268)	—	<u>(268)</u>
Total comprehensive income	—	—	—	—	—	<u>2,104</u>
Common stock issued upon exercise of stock options	2	—	11	—	—	11
Issuance of restricted stock and performance shares to employees for services to be rendered, net of forfeited shares	408	—	—	—	—	—
Share-based employee and service provider compensation expense	—	—	3,605	—	—	3,605
Purchase and retirement of treasury stock related to employee and service provider share-based compensation activity	(75)	—	(549)	—	—	(549)
Purchase and retirement of treasury stock related to stock repurchase program	(1,959)	(2)	(14,998)	—	—	(15,000)
Tax shortfalls from share-based payments	—	—	(339)	—	—	<u>(339)</u>
Balance, December 31, 2008	<u>25,246</u>	<u>\$25</u>	<u>\$163,300</u>	<u>\$(327)</u>	<u>\$(26,589)</u>	<u>\$136,409</u>

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity — (Continued)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		(In thousands)		
Balance, December 31, 2006	25,507	\$26	\$165,205	\$ 48	\$(26,333)	\$138,946
Comprehensive Income (Loss):						
Net income (loss)	—	—	—	—	(1,878)	(1,878)
Effect of change in fair value of available-for-sale securities, net of deferred tax benefit of \$67	—	—	—	(107)	—	<u>(107)</u>
Total comprehensive income (loss)	—	—	—	—	—	<u>(1,985)</u>
Common stock issued upon exercise of stock options	975	1	1,194	—	—	1,195
Issuance of restricted stock and performance shares to employees for services to be rendered, net of forfeited shares	482	—	—	—	—	—
Share-based employee and service provider compensation expense	—	—	10,260	—	—	10,260
Purchase and retirement of treasury stock related to employee and service provider share-based compensation activity	(94)	—	(823)	—	—	(823)
Tax shortfalls from share-based payments	—	—	(266)	—	—	(266)
Cumulative effect of adoption of new accounting pronouncement — Note 2	—	—	—	—	(750)	(750)
Balance, December 31, 2007	<u>26,870</u>	<u>\$27</u>	<u>\$175,570</u>	<u>\$ (59)</u>	<u>\$(28,961)</u>	<u>\$146,577</u>

See Notes to Consolidated Financial Statements.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

**Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2008, 2007 and 2006**

	<u>Common Stock</u>		<u>Additional</u>	<u>Deferred</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Compensation</u>	<u>Other</u>	<u>Deficit</u>	
			<u>Capital</u>		<u>Comprehensive</u>		
					<u>Income (Loss)</u>		
					(In thousands)		
Balance, December 31, 2005	24,409	\$24	\$159,890	\$(1,520)	\$(36)	\$(19,345)	\$139,013
Comprehensive Income (Loss):							
Net (loss)	—	—	—	—	—	(6,988)	(6,988)
Effect of change in fair value of available-for-sale securities, net of deferred taxes of \$(25)	—	—	—	—	12	—	12
Impact of cash flow hedge	—	—	—	—	72	—	<u>72</u>
Total comprehensive income (loss)	—	—	—	—	—	—	<u>(6,904)</u>
Reclassification of deferred compensation upon adoption of SFAS 123R	—	—	(1,520)	1,520	—	—	—
Common stock issued upon exercise of stock options	768	2	911	—	—	—	913
Issuance of restricted stock to employees and service providers for services to be rendered, net of forfeited shares	374	—	—	—	—	—	—
Share-based employee and service provider compensation expense	—	—	6,492	—	—	—	6,492
Purchase and retirement of treasury stock	(44)	—	(568)	—	—	—	(568)
Change in estimate of tax benefit from exercise of stock options	—	—	(814)	—	—	—	(814)
Tax benefit from exercise of stock options	<u>—</u>	<u>—</u>	<u>814</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>814</u>
Balance, December 31, 2006	<u>25,507</u>	<u>\$26</u>	<u>\$165,205</u>	<u>\$ —</u>	<u>\$ 48</u>	<u>\$(26,333)</u>	<u>\$138,946</u>

See Notes to Consolidated Financial Statements.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

**Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>(In thousands)</u>		
Operating activities:			
Net income (loss)	\$ 2,372	\$ (1,878)	\$ (6,988)
Adjustments to reconcile net income (loss) to net cash provided by operating activities of continuing operations:			
Income from discontinued operations	—	(1)	(289)
Depreciation and amortization	2,447	2,665	2,887
Amortization of subscriber acquisition fees	489	489	233
Loss on sale of equipment	36	—	—
Gain on sale of available-for-sale and auction-rate securities	(75)	—	—
Other-than-temporary impairment on auction-rate securities, net	336	—	—
Impairment of amortizable intangible assets	—	—	9,540
Provision for doubtful accounts	709	219	85
Share-based employee and service provider compensation	3,605	10,260	6,492
Deferred tax provision, net	3,249	1,628	(3,648)
Tax benefits from exercise of stock options in excess of recognized expense	—	(1,520)	(814)
Changes in operating assets and liabilities:			
Accounts receivable	(1,853)	(1,702)	(1,616)
Income tax refund receivable	224	2,075	894
Prepaid programming costs	(475)	(809)	(332)
Other current assets	(158)	(340)	(255)
Deposits and other assets	(205)	(318)	(1,774)
Accounts payable and accrued expenses	1,917	1,344	89
Accrued severance payments	(254)	(106)	385
Customer deposits	(14)	(39)	53
Deferred revenue	(56)	(349)	387
Deferred obligations	(50)	46	71
Net cash provided by operating activities	<u>12,244</u>	<u>11,664</u>	<u>5,400</u>
Investing activities:			
Purchases of property, plant and equipment	(857)	(1,259)	(2,377)
Purchase of intangibles	(97)	—	—
Proceeds from sale of equipment	74	12	—
Proceeds from sale of discontinued operations	—	3,589	—
Purchases of available-for-sale and auction-rate securities	(27,181)	(130,945)	(132,505)
Proceeds from sale of available-for-sale and auction-rate securities	66,352	126,760	129,255
Net cash provided by (used in) investing activities	<u>38,291</u>	<u>(1,843)</u>	<u>(5,627)</u>
Financing activities:			
Principal payments on long-term debt and capital leases	—	—	(4,901)
Proceeds from exercise of stock options	11	1,195	913
Purchase and retirement of stock related to stock repurchase program	(15,000)	—	—
Purchase of treasury stock	(549)	(823)	(568)
Tax benefits from exercise of stock options in excess of recognized expense	—	1,520	814
Net cash provided by (used in) financing activities	<u>(15,538)</u>	<u>1,892</u>	<u>(3,742)</u>
Cash flows from discontinued operations:			
Net cash provided by (used in) operating activities of discontinued operations	—	(618)	617
Net cash used in investing activities of discontinued operations	—	(61)	(103)
Net cash provided by financing activities of discontinued operations	—	—	9
Net cash provided by (used in) discontinued operations	<u>—</u>	<u>(679)</u>	<u>523</u>
Net increase (decrease) in cash and cash equivalents	34,997	11,034	(3,446)
Cash and cash equivalents, beginning of year	25,260	14,226	17,672
Cash and cash equivalents, end of year	<u>\$ 60,257</u>	<u>\$ 25,260</u>	<u>\$ 14,226</u>
Supplemental disclosure of cash flow information:			
Interest paid	\$ —	\$ 12	\$ 245
Income taxes paid	<u>\$ 514</u>	<u>\$ 349</u>	<u>\$ 1</u>
Supplemental disclosures of non-cash investing and financing activities:			
Issuance of restricted stock to employees for services rendered	\$ 3,713	\$ 3,387	\$ 2,737
Retirement of treasury stock	<u>\$ 549</u>	<u>\$ 823</u>	<u>\$ 568</u>
Effect of net increase (decrease) in fair value of available-for-sale securities, net of deferred taxes	<u>\$ (268)</u>	<u>\$ (107)</u>	<u>\$ 12</u>
Property, plant and equipment costs incurred but not paid	<u>\$ 17</u>	<u>\$ 171</u>	<u>\$ 8</u>
Effect of net increase in fair value of cash flow hedge	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 72</u>

See Notes to Consolidated Financial Statements.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (In thousands, except per share data)

Note 1 — Organization and Business

Description of Operations

Outdoor Channel Holdings, Inc. (“Outdoor Channel Holdings”) is incorporated under the laws of the State of Delaware. Collectively, with its subsidiaries, the terms “we,” “us,” “our” and the “Company” refer to Outdoor Channel Holdings, Inc. as a consolidated entity, except where noted or where the context makes clear the reference is only to Outdoor Channel Holdings, Inc. or one of our subsidiaries. Gold Prospector’s Association of America, Inc. and LDMA-AU, Inc., which previously made up our Membership Division, were sold in April 2007 (see Note 13). Outdoor Channel Holdings, Inc. wholly owns Gold Prospector’s Association of America, Inc. (“GPAA”) which in turn wholly owns The Outdoor Channel, Inc. (“TOC”). Outdoor Channel Holdings is also the sole member of 43455 BPD, LLC the entity that owns the building that houses our broadcast facility. TOC operates Outdoor Channel, which is a national television network devoted to traditional outdoor activities, such as hunting, fishing and shooting sports, as well as off-road motor sports and other related lifestyle programming.

Our revenues include advertising fees from advertisements aired on Outdoor Channel, including fees paid by outside producers to purchase advertising time in connection with the airing of their programs on Outdoor Channel and subscriber fees paid by cable and satellite service providers that air Outdoor Channel.

Reclassifications

For the year ended December 31, 2007, we have reclassified \$455 of launch support advertising expense to contra-subscription fee revenues to conform to the 2008 presentation and industry standards.

Principles of Consolidation

The consolidated financial statements include the accounts of Outdoor Channel Holdings and its subsidiaries, 43455 BPD, LLC, GPAA and TOC. All material intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, judgments and assumptions. We believe that our estimates, judgments and assumptions made when accounting for items and matters such as customer retention patterns, allowance for bad debts, useful lives of assets, asset valuations including cash flow projections, recoverability of assets, potential unasserted claims under contractual obligations, income taxes, reserves and other provisions and contingencies are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can affect reported amounts of assets and liabilities as of the dates of the consolidated balance sheet and reported amount of revenues and expenses for the periods presented. Accordingly, actual results could materially differ from those estimates.

Note 2 — Summary of Significant Accounting Policies

Cash and Cash Equivalents

We consider all highly-liquid investments with maturities of three months or less when acquired to be cash equivalents.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

Subscriber Acquisition Fees

Subscriber acquisition fees are paid to obtain carriage on certain pay television distributors' systems. Under certain of these agreements with pay television distributors, TOC is obligated to pay subscriber acquisition fees to the pay television distributors if they meet defined criteria for the provision of additional carriage for Outdoor Channel on the pay television distributors' systems. Such costs are accrued when TOC receives appropriate documentation that the distributors have met the contractual criteria and have provided the additional carriage.

Subscriber acquisition fees included in other assets are amortized over the contractual period that the pay television distributor is required to carry the newly acquired TOC subscriber, generally 3 to 5 years. First, the amortization is charged as a reduction of the subscriber fee revenue that the pay television distributor is obligated to pay us. If the amortization expense exceeds the subscriber fee revenue recognized on a per incremental subscriber basis, the excess amortization is included as a component of cost of services. We assess the recoverability of these costs periodically by comparing the net carrying amount of the subscriber acquisition fees to the estimates of future subscriber fees and advertising revenues. We also assess the recoverability when events such as changes in distributor relationships occur or other indicators suggest impairment.

Prepaid Programming Costs

We produce a portion of the programming we air on our channels in-house as opposed to acquiring the programming from third party producers. The cost of production is expensed when the show airs. As such, we have incurred costs for programming that is yet to air. These costs are accumulated on the balance sheet as "Prepaid programming costs." Costs of specific shows will be charged to programming expense based on anticipated airings, when the program airs and the related advertising revenue is recognized. At the time it is determined that a program will not likely air, we charge to expense any remaining costs recorded in prepaid programming costs.

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Replacements of significant items and major renewals and betterments are capitalized. Leasehold improvements are amortized over the shorter of the asset's useful life or the lease term. Depreciation is computed using estimated useful lives under the straight-line method as follows:

Buildings and improvements	10 - 39 years
Equipment	5 years
Furniture and fixtures	3 - 7 years
Vehicles	7 years
Leasehold improvements	3 - 10 years

Amortizable Intangible Assets

Costs recorded in connection with the Company's acquisition of the minority interest in TOC in 2004 for advertising customer relationships are being amortized over a period of 3 to 4 years. TOC has the exclusive right to the trademark Outdoor Channel. The costs of acquiring the trademark are being amortized on a straight-line basis over an estimated useful life of 12.7 years. Costs recorded in connection with the acquisition of certain internet domain names are being amortized over a period of 2 years.

Long-Lived Assets

We account for the impairment and disposition of long-lived assets which consist primarily of intangible assets with finite lives and property and equipment in accordance with SFAS No. 144, "Accounting for the Impairment or

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

Disposal of Long-Lived Assets”. We periodically review the recoverability of the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by long-lived assets are less than their carrying value and, accordingly, all or a portion of the carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts. During 2006, we recognized an impairment charge of \$9,540 related to the carrying value of our MSO relationships asset. We did not record any charges for the impairment of long-lived assets in 2008 or 2007.

Goodwill

We review goodwill for impairment annually and whenever events or changes in circumstance indicate the carrying value of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”. The provisions of SFAS No. 142 require that a two-step impairment test be performed on goodwill. In the first step, we compare the fair value of our only reporting unit to its carrying value. We determine the fair value of our reporting unit using the market approach. If the fair value of our reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to our reporting unit exceeds the fair value, then we must perform the second step in order to determine the implied fair value of the reporting unit’s goodwill and compare it to the carrying value of the reporting unit’s goodwill. If the carrying value of a reporting unit’s goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference. Based on our most recent analysis, we believe that no impairment exists at December 31, 2008.

Advertising

We expense the cost of advertising and promotions as the advertisement or promotion takes place.

Revenue Recognition

We generate revenues through advertising fees from advertisements and infomercials aired on Outdoor Channel, fees paid by outside producers to purchase advertising time in connection with the airing of their programs on Outdoor Channel and from subscriber fees paid by cable and satellite service providers that air Outdoor Channel.

Advertising revenues are recognized when the advertisement is aired and the collectability of fees is reasonably assured. Subscriber fees are recognized in the period the programming is aired by the distributor.

Broadcast and national television network advertising contracts may guarantee the advertiser a minimum audience for its advertisements over the term of the contracts. We provide the advertiser with additional advertising time if we do not deliver the guaranteed audience size. The amount of additional advertising time is generally based upon the percentage of shortfall in audience size. This requires us to make estimates of the audience size that will be delivered throughout the terms of the contracts. We base our estimate of audience size on information provided by ratings services and our historical experience. If we determine we will not deliver the guaranteed audience, an accrual for “make-good” advertisements is recorded as a reduction of revenue. The estimated make-good accrual is adjusted throughout the terms of the advertising contracts.

We do not record any receivables arising under these contracts. Accordingly, revenues recognized do not exceed the total of the cash payments received and cash received in excess of revenue earned is recorded as deferred revenue.

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management specifically analyzes the age of customer balances, historical bad debt experience, customer credit-worthiness and trade publications regarding the financial health of our larger customers and changes in customer payment terms when making estimates of the uncollectability of our trade accounts receivable balances. If we determine that the financial condition of any of our customers deteriorated or

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

improved, whether due to customer specific or general economic conditions, we make appropriate adjustments to the allowance.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. A valuation allowance is established against deferred tax assets that do not meet the criteria for recognition. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

In July 2006, the Financial Accounting Standards Board (“FASB”) issued Financial Interpretation (“FIN”) 48, “Accounting for Uncertainty in Income Taxes,” which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with Statement of Financial Accounting Standards 109, “Accounting for Income Taxes.” FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted FIN 48 effective January 1, 2007, and recorded a charge of \$750 to stockholders’ equity to reflect the effect of adoption of this standard.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings (loss) per common share reflects the potential dilution of securities by including common stock equivalents, such as stock options and performance units in the weighted average number of common shares outstanding for a period, if dilutive.

The following table sets forth a reconciliation of the basic and diluted number of weighted average shares outstanding used in the calculation of earnings (loss) per share for the years ended December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Weighted average shares used to calculate basic earnings (loss) per share	25,369	26,027	24,556
Dilutive effect of potentially issuable common shares upon exercise of dilutive stock options and performance units	<u>717</u>	<u>—</u>	<u>—</u>
Weighted average shares used to calculate diluted earnings (loss) per share	<u>26,086</u>	<u>26,027</u>	<u>24,556</u>

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

As of December 31, 2008, 2007 and 2006 outstanding options and performance units to purchase 1,993, 2,827 and 1,618 shares of common stock, respectively, were not included in the calculation of diluted earnings per share because their effect was antidilutive.

Stock Incentive Plans

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), which requires us to record stock compensation expense for equity based awards granted, including stock options, for which expense will be recognized over the service period of the equity based award based on the fair value of the award at the date of grant. SFAS 123R revises SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”.

We adopted the provisions of SFAS 123R using the modified prospective transition method. In accordance with this transition method, our consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123R. Under the modified prospective transition method, share-based compensation expense for 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123. Share-based compensation expense for all share-based compensation awards granted after December 31, 2005 is based on the grant date for fair value estimated in accordance with the provisions of SFAS 123R using the Black-Scholes option-pricing model (for stock options) or lattice models such as the Monte Carlo simulation (for awards that vest based upon market conditions).

We account for stock options granted to non-employees using the fair value method. Compensation expense for options granted to non-employees has been determined in accordance with SFAS No. 123, Emerging Issues Task Force (“EITF”) No. 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” and EITF No. 00-18 “Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees”, as the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Compensation expense for options granted to non-employees is periodically remeasured as the underlying options vest and is recorded as expense in the consolidated financial statements.

Investments

Pursuant to Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, our investments in marketable debt and equity securities have been classified as available-for-sale securities and, accordingly, are valued at fair value at the end of each period. Any material unrealized holding gains and losses arising from such valuation are excluded from net income and reported, net of applicable income taxes, in other comprehensive income. Accumulated net unrealized holding gains and losses are included at the end of each year in accumulated other comprehensive (loss) which is a separate component of stockholders’ equity.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“SFAS 141R”). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R applies prospectively to all business combination transactions for which the

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

acquisition date is on or after January 1, 2009. The impact of our adoption of SFAS 141R will depend upon the nature and terms of business combinations, if any, that we consummate on or after January 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 clarifies the classification in a company’s consolidated balance sheet and the accounting for a disclosure of transactions between the company and holders of noncontrolling interest. SFAS 160 is effective for the Company as of January 1, 2009. Early adoption is not permitted. We do not expect the adoption of SFAS 160 to have a material impact on the Company’s consolidated financial statements.

On January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements, and has been partially deferred for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The partial adoption of SFAS 157 for financial assets and liabilities did not have a material impact on our consolidated financial position, results of operations or cash flows. See Note 4 for the related disclosures regarding fair value measurement of our investments.

In addition, on January 1, 2008, we adopted Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). Under SFAS 159, companies may elect to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. We did not elect to use the fair value option. Therefore, the adoption of SFAS 159 did not impact our consolidated financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets, (“FSP No. 142-3”) that amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (“SFAS No. 142”). FSP No. 142-3 requires a consistent approach between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of an asset under SFAS No. 141(R), Business Combinations. The FSP also requires enhanced disclosures when an intangible asset’s expected future cash flows are affected by an entity’s intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is applied prospectively. Early adoption is prohibited. We do not expect the adoption of FSP No. 142-3 to have a material impact on our consolidated results of operations, financial position or cash flows.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”). The current GAAP hierarchy, as set forth in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles, has been criticized because (1) it is directed to the auditor rather than the entity, (2) it is complex, and (3) it ranks FASB Statements of Financial Accounting Concepts. The FASB believes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and is issuing this Statement to achieve that result. SFAS 162 is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material impact on the Company’s consolidated results of operations, financial position or cash flows.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

In October 2008, the FASB issued FSP 157-3 “Determining Fair Value of a Financial Asset in a Market That Is Not Active” (FSP 157-3). FSP 157-3 clarified the application of SFAS No. 157 in an inactive market. It demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows.

Note 3 — Subscriber Acquisition Fees

Subscriber acquisition fees, which are included in other assets as of December 31, 2008 and 2007, are comprised of the following:

	<u>2008</u>	<u>2007</u>
Subscriber acquisition fees, at cost	\$ 2,445	\$2,445
Accumulated amortization	<u>(1,224)</u>	<u>(735)</u>
Subscriber acquisition fees, net	<u>\$ 1,221</u>	<u>\$1,710</u>

Of the net balance at December 31, 2008, we expect \$293 will be recognized as a reduction of subscriber fee revenue and \$928 will be recognized as subscriber acquisition fee amortization expense in future periods. For the years ended December 31, 2008, 2007 and 2006, \$118, \$348 and \$203 was charged to revenue and \$371, \$141 and \$30 was charged to expense, respectively. We expect to amortize the net balance as of December 31, 2008 as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2009	\$ 489
2010	476
2011	<u>256</u>
Total amortization	<u>\$1,221</u>

For the years ended December 31, 2008 and 2007, we made cash payments of \$0 and \$365, respectively, relating to current subscriber acquisition fee obligations.

Note 4 — Fair Value Measurements and Investments

Our material financial instruments consist of cash and cash equivalents, investments in available-for-sale securities, accounts receivable, and accounts payable and accrued expenses. The carrying amounts of our financial instruments generally approximated their fair values at December 31, 2008 and 2007.

Assets recorded at fair value in the balance sheet as of December 31, 2008 are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 “Fair Value Measurements” are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 — Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 — Unobservable inputs developed using estimates and assumptions developed by management, which reflect those that a market participant would use.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
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We measure the following financial assets at fair value on a recurring basis. The fair value of these financial assets was determined using the following inputs at December 31, 2008:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents(1)	\$60,257	\$60,257	\$—	\$ —
Non-current investments in available-for-sale securities(2)	<u>6,456</u>	<u>—</u>	<u>—</u>	<u>6,456</u>
Total	<u>\$66,713</u>	<u>\$60,257</u>	<u>\$—</u>	<u>\$6,456</u>

- (1) Cash and cash equivalents consist primarily of treasury bills and money market funds with original maturity dates of three months or less, for which we determine fair value through quoted market prices.
- (2) Investments in available-for-sale securities consist of one auction-rate municipal security and three closed end perpetual preferred auction-rate securities (“PPS”). PPS were originally considered Level 2 financial assets and valued using estimated market values as of the balance sheet date obtained from an independent pricing service employed by our broker dealers. These independent pricing services carried these investments at par value, due to the overall quality of the underlying investments and taking into account credit ratings, and the anticipated future market for such investments. However, during the quarter ending September 30, 2008, we began using discounted cash flow analysis to more accurately measure possible liquidity discounts. Because the discounted cash flow analysis included unobservable inputs we transferred these securities to Level 3 financial assets.

As of December 31, 2008, our investments in available-for-sale securities (“ARS”) consisted of one auction-rate municipal security collateralized by federally backed student loans and three closed end perpetual preferred securities which have redemption features which call for redemption at 100% of par value and have maintained AAA/AA credit ratings despite the failure of the auction process. To date, we have collected all interest payable on all of our ARS in accordance with their stated terms. Historically, the carrying value (par value) of the ARS approximated fair market value due to the frequent resetting of variable interest rates. Beginning in February 2008, however, the auctions for ARS began to fail and were largely unsuccessful, requiring us to hold them beyond their typical auction reset dates. As a result, the interest rates on these investments reset to the maximum based on formulas contained in the securities. The rates are generally equal to or higher than the current market for similar securities. The par value of the ARS associated with these failed auctions will not be available to us until a successful auction occurs, a buyer is found outside of the auction process, the securities are called or the underlying securities have matured. Due to these liquidity issues, we performed a discounted cash flow analysis to determine the estimated fair value of these investments. The assumptions used in preparing the models include, but are not limited to, interest rate yield curves for similar securities, market rates of returns, and the expected term of each security. In making assumptions of required rates of return, we considered risk-free interest rates and credit spreads for investments of similar credit quality. As a result of the lack of liquidity in the PPS market, we recorded an unrealized loss on our PPS of \$327 in the year ended December 31, 2008, which is included in accumulated other comprehensive loss on our balance sheet. We deemed the loss to be temporary because we do not plan to sell any of the PPS prior to maturity at an amount below the original purchase value and, at this time, do not deem it probable that we will receive less than 100% of the principal and accrued interest. Based on our cash and cash equivalents balance of \$60,257, expected operating cash flows, we do not believe a lack of liquidity associated with our PPS will adversely affect our ability to conduct business, and believe we have the ability to hold the securities throughout the currently estimated recovery period. We will continue to evaluate any changes in the market value of the failed ARS that have not been liquidated subsequent to year-end and in the future, depending upon existing market conditions, we may be required to record an other-than-temporary decline in market value. We are not certain how long we may

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

be required to hold each security. However, given our current cash position, liquid cash equivalents and cash flow from operations we believe we have the ability and we intend to hold the failed PPS as long-term investments until the market stabilizes.

All of our assets measured at fair value on a recurring basis using significant Level 3 inputs as of December 31, 2008 were auction-rate securities. The three closed end perpetual preferred auction-rate securities totaling \$3,772 have a weighted average interest rate of 1.81% and an auction reset of 28 days. The municipal security has an interest rate of 0.09%, matures on December 1, 2045 and as of December 31, 2008 the next auction reset date was January 19, 2009. The following table summarizes our fair value measurements using significant Level 3 inputs, and changes therein, for the year ended December 31, 2008:

	<u>Year Ended December 31, 2008</u>
Auction-Rate Securities:	
Balance at beginning of period	\$ —
Transfers into Level 3	9,725
Unrealized losses included in accumulated other comprehensive loss	(327)
Other-than-temporary impairment	(336)
Transfers into Level 2	<u>(2,606)</u>
Balance as of December 31, 2008	<u>\$ 6,456</u>

We consider the yields we recognize from auction-rate securities and from cash held in our treasury bills and money market accounts to be interest income. Yields we recognize from our investments in equity securities we consider to be dividend income. Both are recorded in interest and other income, net as follows:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Interest income	\$1,750	\$3,215	\$2,611
Interest expense	—	(12)	(245)
Dividend income	32	77	79
Loss on sale of equity securities	(44)	—	—
Other-than-temporary impairment on auction-rate securities	(336)	—	—
Realized gain on sale of auction-rate securities	<u>119</u>	<u>—</u>	<u>—</u>
Total interest and other income, net	<u>\$1,521</u>	<u>\$3,280</u>	<u>\$2,445</u>

Note 5 — Comprehensive Income (loss)

The following table provides the composition of other comprehensive income (loss) as of December 31:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net income (loss), as reported	\$2,372	\$(1,878)	\$(6,988)
Unrealized losses on available-for-sale securities	(268)	(107)	12
Impact of cash flow hedge	<u>—</u>	<u>—</u>	<u>72</u>
Comprehensive income (loss)	<u>\$2,104</u>	<u>\$(1,985)</u>	<u>\$(6,904)</u>

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(In thousands, except per share data)

Note 6 — Property, Plant and Equipment

Property, plant and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 600	\$ 600
Buildings and improvements	8,822	8,714
Equipment	7,289	6,827
Furniture and fixtures	228	119
Vehicles	271	528
Leasehold improvements	<u>649</u>	<u>640</u>
	17,859	17,428
Less accumulated depreciation	<u>(7,817)</u>	<u>(5,796)</u>
Totals	<u>\$10,042</u>	<u>\$11,632</u>

For the years ended December 31, 2008, 2007 and 2006, we recognized depreciation expense related to these assets of \$2,179, \$2,157 and \$2,314, respectively.

Note 7 — Goodwill and Intangible Assets

Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually or more frequently if impairment indicators arise. All of our other intangible assets are considered to have finite lives and are being amortized over their estimated useful lives.

Intangible assets that are subject to amortization under SFAS No. 142 consist of the following as of December 31:

	<u>2008</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Advertising customer relationships	\$1,972	\$1,972	\$ —
Trademark	219	174	45
Internet domain names	<u>97</u>	<u>—</u>	<u>97</u>
Total intangible assets	<u>\$2,288</u>	<u>\$2,146</u>	<u>\$142</u>
		<u>2007</u>	
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Advertising customer relationships	\$1,972	\$1,719	\$253
Trademark	<u>219</u>	<u>159</u>	<u>60</u>
Total intangible assets	<u>\$2,191</u>	<u>\$1,878</u>	<u>\$313</u>

As of December 31, 2008, the weighted average remaining amortization period for the above intangibles is 2.4 years. As of September 30, 2006, we deemed the MSO relationship asset to be fully impaired and correspondingly wrote-off the balance of \$9,540 on that date.

Based on our most recent analysis, we believe that no impairment exists at December 31, 2008 with respect to our goodwill and other intangible assets.

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Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

Estimated future amortization expense related to intangible assets at December 31, 2008 is as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2009	\$ 64
2010	63
2011	11
2012	<u>4</u>
Total	<u>\$142</u>

Note 8 — Lines of Credit

Bank Lines of Credit

On October 2, 2007, the Board of Directors approved the renewal of the revolving line of credit agreement (the “Revolver”) with U.S. Bank N.A. (the “Bank”), extending the maturity date to September 5, 2009 and increasing the total amount which can be drawn upon under the Revolver from \$8,000,000 to \$10,000,000. The Revolver provides that the interest rate shall be LIBOR plus 1.25% payable monthly. The Revolver was previously collateralized by substantially all of our assets. The renewed Revolver is unsecured. This credit facility contains customary financial and other covenants and restrictions, as amended on September 21, 2007, including a change of control provision, some of which are defined with non-GAAP provisions including elimination of the effects of noncash share-based employee compensation expense. As of December 31, 2008, we did not have any amounts outstanding under this credit facility. This Revolver is guaranteed by TOC.

Note 9 — Commitments and Contingencies

From time to time we are involved in litigation as both plaintiff and defendant arising in the ordinary course of business. In the opinion of management, the results of any pending litigation should not have a material adverse effect on our consolidated financial position or operating results.

We have included the contractual obligations assumed in the Winnercomm acquisition purchased in January 2009 in the following table.

A summary of our contractual obligations as of December 31, 2008:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>After 5 Years</u>
Operating lease obligations	\$12,466	\$ 3,933	\$ 4,632	\$2,458	\$1,443
Purchase obligations	22,968	13,442	8,794	729	3
Other long-term liabilities	<u>768</u>	<u>768</u>	—	—	—
Total	<u>\$36,202</u>	<u>\$18,143</u>	<u>\$13,426</u>	<u>\$3,187</u>	<u>\$1,446</u>

In October 2006, we appointed Roger L. Werner, Jr. President of Outdoor Channel Holdings, Inc. and entered into an employment agreement (the “Agreement”) with him, which sets forth terms and provisions governing his employment as Chief Executive Officer and President. The Agreement has an initial term of three years beginning October 16, 2006, which will be automatically extended each year for an additional one year term unless the other party provides written notice of non-renewal at least 60 days prior to the date of automatic renewal. The Agreement may be terminated at any time by either party with or without cause. The agreement contains provisions for

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

severance payments in the event that the Company terminates Mr. Werner's employment without "Cause" (as defined in the Agreement) or Mr. Werner resigns for "Good Reason" (as also defined in the Agreement).

In February 2008, the Company entered into a Supplemental Compensation Agreement with its Chief Executive Officer, Mr. Roger L. Werner, providing for an increase in Mr. Werner's base annual salary from \$300 to \$450, effective February 4, 2008, and an increase from \$450, to \$500, effective October 16, 2008. The Supplemental Compensation Agreement also provides for target annual incentive bonuses for Mr. Werner of not less than \$225 and not less than \$250 for 2008 and 2009, respectively. In addition, under the terms of the Supplemental Compensation Agreement, Mr. Werner is eligible to receive up to \$950 for the renewal of seven major affiliation agreements on commercially reasonable terms. Mr. Werner is also eligible to receive an incentive bonus for incremental growth of the Company's subscriber base over the existing base as reported by all companies distributing the Outdoor Channel in their December 2007 reports as follows: \$300 for each incremental increase of 1 million paying subscribers, or portion thereof, for up to 5 million incremental subscribers; \$400 for each incremental increase of 1 million paying subscribers, or portion thereof, for between 5 million and 10 million incremental subscribers; and \$500 for each incremental increase of 1 million paying subscribers, or portion thereof, for incremental subscribers in excess of 10 million, with no maximum amount. Further, Mr. Werner is entitled to receive a cash bonus of 5% of the annual increase in advertising revenue from continuing operations of Outdoor Channel compared to the prior year, for both 2008 and 2009. During the year ended December 31, 2008, we have recognized \$1,413 of expense related to Mr. Werner's Supplemental Compensation Agreement.

On August 14, 2008, the Company announced an increase in the total dollar amount of its stock repurchase plan, as previously disclosed, from \$10 million to \$15 million. All repurchases under the plan were in accordance with Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program commenced April 15, 2008 and was completed on October 10, 2008. As of the completion date, a total of 1,959,500 shares have been repurchased for \$15,000.

On October 3, 2008 a previously terminated employee filed a complaint against the Company and one of its employees in the Superior Court of California in Riverside. This complaint alleges wrongful termination, violation of the California Family Rights Act, unfair business practices, discrimination, failure to accommodate, failure to engage in interactive process, failure to take reasonable steps to prevent discrimination, retaliation, and intentional infliction of emotional distress. This complaint seeks aggregate general damages in excess of \$10 million plus other indeterminable amounts plus fees and expenses. We intend to vigorously defend this lawsuit.

From time to time we are involved in litigation as both plaintiff and defendant arising in the ordinary course of business. In the opinion of management, the results of any pending litigation should not have a material adverse effect on our consolidated financial position or operating results.

Operating Leases

We lease facilities and equipment, including access to satellites for television transmission, under non-cancelable operating leases that expire at various dates through 2012. Rent expense is recognized on a straight-line basis over each lease term. The excess of the expense accrued over the amounts currently payable is reflected in deferred obligations in the accompanying consolidated balance sheets.

We lease our administrative facilities from Musk Ox Properties, LP, which in turn is owned by Messrs. Perry T. Massie, Chairman of the Board and Thomas H. Massie, both of whom are principal stockholders and directors of the Company. The lease agreement has a five-year term, expiring on December 31, 2010, with 2 renewal options (between 2 and 5 years) exercisable at our discretion. Monthly rental payments are currently \$18 with a 3% per year escalation clause.

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Notes to Consolidated Financial Statements — (Continued)
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Rent expense, including rent paid to Musk Ox Properties, LP and satellite and transponder expense, aggregated to approximately \$2,413, \$2,877 and \$2,981 in the years ended December 31, 2008, 2007 and 2006, respectively.

Total rental commitments under the operating lease agreements described above for years ending subsequent to December 31, 2008 are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2009	\$ 3,933
2010	2,909
2011	1,723
2012	1,439
2013	1,019
Thereafter	<u>1,443</u>
Total	<u><u>\$12,466</u></u>

Note 10 — Income Taxes

The components of the provision (benefit) for income taxes from continuing operations for the years ended December 31, 2008, 2007 and 2006 were as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current:			
Federal	\$ 225	\$ 40	\$ —
State	<u>541</u>	<u>3</u>	<u>2</u>
Total current	<u>766</u>	<u>43</u>	<u>2</u>
Deferred:			
Federal	3,239	1,411	(3,050)
State	<u>(17)</u>	<u>264</u>	<u>(828)</u>
Total deferred	<u>3,222</u>	<u>1,675</u>	<u>(3,878)</u>
Totals	<u><u>\$3,988</u></u>	<u><u>\$1,718</u></u>	<u><u>\$(3,876)</u></u>

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The tax effects of the temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2008 and 2007 were related to the following:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Net operating loss carryforwards	\$ 958	\$ 4,542
Share-based compensation	4,795	5,106
Deferred revenues	80	97
Other accrued liabilities	406	117
Alternative minimum tax credit	319	95
Allowance for doubtful accounts	323	—
Programming costs	364	348
Capital loss carryover	519	251
Other	<u>220</u>	<u>397</u>
Subtotal	7,984	10,953
Less: Valuation allowance	<u>(519)</u>	<u>(251)</u>
	<u>\$7,465</u>	<u>\$10,702</u>
Deferred tax liabilities:		
Property, plant and equipment	(521)	(532)
State taxes	(471)	
Intangible assets	—	(95)
Other	<u>—</u>	<u>(44)</u>
	<u>(992)</u>	<u>(671)</u>
Deferred tax assets, net	<u>\$6,473</u>	<u>\$10,031</u>

As of December 31, 2008, we have a U.S. Federal net operating loss carryforward of approximately \$877 and aggregate State net operating loss carryforward of approximately \$13,195. Expiration of these carryforwards will commence in 2015 for State and 2025 for Federal. The alternative minimum tax credit of \$319 does not expire. We have a capital loss carryforward of \$1,018 as of December 31, 2008 of which the majority resulted from the sale of the Membership Division in 2007. As we do not believe it is more likely than not to realize a benefit for the capital loss, a valuation allowance has been established against the entire capital loss carryforward. The Company believes it is more likely than not that the benefit associated with the deferred tax assets resulting from net operating loss carryforwards and other deferred tax assets will be ultimately realized based on its assessment of future taxable income during the periods in which the net operating losses remain available.

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The provision (benefit) for income taxes from continuing operations reflected in the accompanying consolidated statements of operations is different than that computed based on the applicable statutory Federal income tax rate of 34% in 2008, 2007 and 2006 as shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Federal income tax provision (benefit) at statutory income tax rate . . .	\$2,162	\$ (55)	\$(3,792)
State taxes, net of federal benefit	346	177	(397)
Non-deductible expense	41	21	273
Share-based compensation	925	1,200	—
Officer compensation	418	—	—
Valuation allowance	89	251	—
Other	7	124	40
Income tax provision (benefit)	<u>\$3,988</u>	<u>\$1,718</u>	<u>\$(3,876)</u>

Gross unrecognized tax benefits as of December 31, 2008 are as follows:

Gross unrecognized tax benefits as of January 1, 2008	\$1,309
Increases in tax positions for prior years	—
Decreases in tax positions for prior years	—
Settlements	—
Lapse in statute of limitations	—
Gross unrecognized tax benefits as of December 31, 2008	<u>\$1,309</u>

All of the unrecognized tax benefits at January 1, 2008 and December 31, 2008 would affect the effective tax rate if recognized, offset by approximately \$445 related to items that would affect other tax accounts, primarily deferred income taxes, if recognized. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

We file income tax returns in the United States and various state and local tax jurisdictions. We are no longer subject to U.S. Federal examinations for years prior to 2005, and with few exceptions we are no longer subject to state and local tax examinations for years prior to 2004.

Note 11 — Stock Incentive Plans

We account for share-based compensation in accordance with Statement of Financial Accounting Standards No. 123 (R) “Share-Based Payments” (“SFAS 123R”) which requires the measurement and recognition of compensation expense to be recognized in the financial statements over the service period for the fair value of all awards granted after the date of adoption as well as for existing awards for which the requisite service had not been rendered as of the date of adoption. Our stock incentive plans provide for the granting of qualified and nonqualified options, restricted stock, restricted stock units (“RSUs”), stock appreciation rights (“SARs”) and performance units to our officers, directors and employees. Outstanding options generally vest over a period from 90 days to four years after the date of the grant and expire no more than ten years after the grant. We satisfy the exercise of options and awards of restricted stock by issuing previously unissued common shares. Currently we have not awarded any RSUs or SARs but have awarded performance units.

We have three stock option plans: 1995 Stock Option Plan (“1995 Plan”), 2004 Long-Term Incentive Plan (“LTIP Plan”) and Non-Employee Director Stock Option Plan (“NEDSOP”). No more options can be issued under the 1995 or NEDSOP Plans. We also may grant stock options that are not covered under any of the stock option plans, with appropriate shareholder approvals. Options and stock grants are subject to terms and conditions as

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Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

determined by our Board of Directors. Stock option grants are generally exercisable in increments of 25% during each year of employment beginning three months to one year from the date of grant. Generally, stock options expire five years from the date of grant. Options issued under our NEDSOP Plan are generally exercisable 40% after the first 3 months of service and 20% on the first anniversary of appointment and each anniversary thereafter until 100% are vested. These options generally have 10 year lives.

Our Board of Directors has discretion to allow our employees to forego shares in lieu of paying requisite withholding taxes on vested restricted shares. In turn, we remit to the appropriate taxing authorities the U.S. Federal and state withholding on the total compensation the employees have realized as a result of the vesting of these shares. During the year ended December 31, 2008 and 2007, approximately 75 and 94 shares were repurchased with a market value of approximately \$549 and \$823, respectively.

1995 Stock Option Plan (“1995 Plan”). There are 1,250,000 shares of common stock reserved for issuance under the 1995 Plan. Options granted under the 1995 Plan typically expire 5 years from the date of grant. These options generally vest equally over four years beginning three months to one year from the grant date. As of December 31, 2008, no options to purchase shares of common stock were outstanding and no further option grants can be issued under this plan.

2004 Long-Term Incentive Plan (“LTIP Plan”). During 2005 through December 31, 2008, all options to purchase common stock, restricted stock awards and performance units to our employees, service providers and Board of Directors were issued under the LTIP Plan. Options granted under the LTIP Plan expire five years from the date of grant and typically vest equally over four years. Restricted stock awards granted under the LTIP plan do not expire, but are surrendered upon termination of employment if unvested. These awards generally vest over three to five years, however, some awards vest monthly. Performance units vest based upon criteria established at the time of grant. Options or awards that are surrendered or cease to be exercisable continue to be available for future grant under the LTIP Plan. There are 4,050,000 shares of common stock reserved for issuance under the LTIP Plan. As of December 31, 2008, options to purchase 555,000 shares of common stock, 848,799 restricted shares, and 700,000 performance unit shares were outstanding. There were 1,439,553 shares of common stock available for future grant as of December 31, 2008.

Non-Employee Director Stock Option Plan (“NEDSOP”). Under the NEDSOP, nonqualified stock options to purchase common stock were granted to three prior non-employee directors during periods of their appointment and to two of our current non-employee directors. Options granted under the NEDSOP expire 10 years from the date of grant. These grants are generally exercisable 40% after the first 3 months of service and 20% on the first anniversary of appointment and each anniversary thereafter until 100% vested. If an option is surrendered or ceases to be exercisable, the shares continue to be available for future grant. The NEDSOP has 1,000,000 shares of common stock reserved for issuance. As of December 31, 2008, options to purchase 250,000 shares of common stock were outstanding and no further option grants can be issued under this plan.

Other or Outside of Plan Option stock grants can be granted that are not covered under any of the stock option plans with appropriate shareholder approval. There are 462,500 shares of nonqualified stock options to purchase common stock authorized. Options granted outside of the other plans generally vest on a quarterly or annual basis and expire 5 years from the date of the grant. As of December 31, 2008, options to purchase 25,000 shares of common stock were outstanding.

We expense awards at the earlier of their vesting schedule or pro rata on a straight line basis over the requisite service period and have not capitalized any share-based compensation to any of our assets.

Under SFAS 123R, the fair value of the shares and options, adjusted for a forfeiture assumption, at the respective dates of grant (which represents deferred compensation not required to be recorded initially in the consolidated balance sheet) will be amortized to share-based compensation expense as the rights to the restricted stock and options vest with an equivalent amount added to additional paid-in capital. Changes to forfeiture

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

assumptions are based on actual experience and are recorded in accordance with the rules related to accounting for changes in estimates. For the service providers, however, the future charge will be recognized in accordance with EITF 96-18 and, except for the performance shares, will be remeasured to reflect the fair market value at the end of each reporting period until the shares vest when the related charge will be remeasured for the final time. Restricted shares issued to service providers that vest upon specific performance have been excluded from compensation expense recognition until and if such shares vest upon achievement of the performance goals.

The following tables summarize share-based compensation expense for the year ended December 31, 2008, 2007 and 2006:

	<u>December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Nature of Award:			
Restricted stock	\$3,004	\$ 1,975	\$ 686
Options	601	1,701	3,400
Performance units	—	<u>6,584</u>	<u>2,406</u>
Total share-based compensation expense	<u>\$3,605</u>	<u>\$10,260</u>	<u>\$6,492</u>

	<u>December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Classification of Compensation Expense:			
Cost of services:			
Production and operations	\$ 440	\$ 263	\$ 197
Other expenses:			
Selling, general and administrative	<u>3,165</u>	<u>9,997</u>	<u>6,295</u>
Total share-based compensation expense	<u>\$3,605</u>	<u>\$10,260</u>	<u>\$6,492</u>

The estimated values were derived by using the Black-Scholes option pricing model with the following assumptions:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Risk-free interest rate	1.4 - 2.3%	4.9 - 5.0%	4.3 - 4.9%
Dividend yield	0.0%	0.0%	0.0%
Weighted average expected life	0.1 - 0.3 years	0.8 years	3.3 - 3.8 years
Expected volatility	33.6 - 52.6%	39.2 - 39.5%	48.7 - 58.9%
Weighted average volatility factor	45.4%	39.4%	53.1%

The risk-free rate is based on the U.S. Treasury rate with a maturity date corresponding to the options' expected life. We have not paid dividends in the past and do not plan to pay any dividends in the future.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

Issuances of Common Stock by the Company

During the twelve month periods ended December 31, 2008, 2007 and 2006 we received cash from the exercise of options as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Number of options exercised	2	975	768
Cash proceeds	\$11	\$1,195	\$ 913
Tax benefit from options exercised.	\$ 2	\$2,376	\$1,463

Under SFAS 123R, the fair value of the shares and options, adjusted for a forfeiture assumption, at the respective dates of grant (which represents deferred compensation not required to be recorded initially in the consolidated balance sheet) will be amortized to share-based compensation expense as the rights to the restricted stock and options vest with an equivalent amount added to additional paid-in capital. Changes to forfeiture assumptions are based on actual experience and are recorded in accordance with the rules related to accounting for changes in estimates. For the service providers, however, the future charge will be recognized in accordance with EITF 96-18 and, except for the performance shares, will be remeasured to reflect the fair market value at the end of each reporting period until the shares vest when the related charge will be remeasured for the final time. Restricted shares issued to service providers that vest upon specific performance have been excluded from compensation expense recognition until and if such shares vest upon achievement of the performance goals.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

Stock Options

A summary of the status of the options granted under Outdoor Channel Holdings' stock option plans and outside of those plans as of December 31, 2008 and the changes in options outstanding are summarized as follows:

	<u>Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (yrs.)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at January 1, 2006	3,564	\$ 7.31		
Granted	505	12.40		
Exercised	(768)	1.19		
Forfeited	(24)	13.07		
Expired	<u>(5)</u>	<u>14.55</u>		
Outstanding at December 31, 2006	3,272	9.48		
Granted	—	—		
Exercised	(975)	1.23		
Forfeited	(448)	14.06		
Expired	<u>(407)</u>	<u>13.60</u>		
Outstanding at December 31, 2007	1,442	12.48		
Granted	—	—		
Exercised	(2)	6.14		
Forfeited	(23)	12.11		
Expired	<u>(587)</u>	<u>11.92</u>		
Outstanding at December 31, 2008	<u>830</u>	<u>\$12.90</u>	<u>2.97</u>	<u>\$—</u>
Vested and expected to vest at December 31, 2008	<u>826</u>	<u>\$12.90</u>	<u>2.97</u>	<u>\$—</u>
Exercisable at December 31, 2008	<u>775</u>	<u>\$12.86</u>	<u>3.05</u>	<u>\$—</u>

Additional information regarding options outstanding for all plans as of December 31, 2008, is as follows:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding (In thousands)</u>	<u>Weighted Average Remaining Contractual Term (yrs.)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable (In thousands)</u>	<u>Weighted Average Exercise Price</u>
\$10.19 - \$10.19	10	2.25	\$10.19	5	\$10.19
\$12.10 - \$12.10	300	2.79	12.10	300	12.10
\$12.50 - \$12.58	170	4.15	12.52	152	12.51
\$12.80 - \$13.90	250	3.00	13.35	244	13.34
\$14.86 - \$14.95	75	1.84	14.89	49	14.89
\$15.75 - \$15.75	<u>25</u>	<u>0.44</u>	<u>15.75</u>	<u>25</u>	<u>15.75</u>
Total	<u>830</u>	2.97	\$12.90	<u>775</u>	\$12.86

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

(In thousands, except per share data)

There were no options granted during the year ended December 31, 2008 and 2007. The weighted average grant-date fair values of options granted during the year ended December 31, 2006 were \$5.19 per share. The aggregate intrinsic value of options exercised during the year ended December 31, 2008, 2007 and 2006 was \$2, \$7,886 and \$8,026, respectively.

Restricted Stock

A summary of the status of Outdoor Channel Holdings' nonvested restricted shares as of December 31, 2008 and the changes in restricted shares outstanding are summarized as follows:

	<u>Shares (in thousands)</u>	<u>Weighted Average Grant-Date Fair Value</u>
Nonvested at January 1, 2006	127	\$14.43
Granted	245	12.12
Vested	(37)	13.70
Forfeited	<u>(21)</u>	<u>14.10</u>
Nonvested at December 31, 2006	314	12.73
Granted	538	9.41
Vested	(99)	12.31
Forfeited	<u>(56)</u>	<u>12.46</u>
Nonvested at December 31, 2007	697	10.25
Granted	504	7.37
Vested	(256)	10.62
Forfeited	<u>(96)</u>	<u>9.96</u>
Nonvested at December 31, 2008	<u>849</u>	<u>\$ 8.46</u>

The fair value of nonvested shares for grants made during open market hours is determined based on the closing trading price of our shares on the trading day immediately prior to the grant date. The fair value of nonvested shares for grants made after the market closes is determined based on the closing trading price of our shares on the grant date.

Expense to be Recognized

Expense associated with our share-based compensation plans yet to be recognized as compensation expense over the employees' remaining requisite service periods as of December 31, 2008 are as follows:

	<u>As of December 31, 2008</u>	
	<u>Expense Yet to be Recognized</u>	<u>Weighted Average Remaining Requisite Service Periods</u>
Stock options	\$ 394	0.89 years
Restricted stock	<u>6,038</u>	<u>2.93 years</u>
Total	<u>\$6,432</u>	<u>2.81 years</u>

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued) (In thousands, except per share data)

Additional Required Disclosures Related to Employee Performance Units

The fair value of each performance unit granted by us in 2006 (none were granted in prior years) was estimated on the date of grant using a Monte Carlo model assuming equity returns, continuously compounded, following a normal distribution pricing model with the following assumptions and determinations:

	<u>First Award</u>	<u>Second Award</u>
Risk-free interest rate	4.8%	4.8%
Dividend yield	0.0%	0.0%
Closing per share price on grant date	\$12.10	\$12.10
Expected volatility	54.0%	72.9%
Estimated service period	7.2 months	13.3 months
Fair value of one common share	\$11.29	\$11.19

Expected volatilities are based on historical volatility of our stock. The risk-free rate is based on a U.S. government bond benchmark with a maturity date corresponding to the performance unit's life.

Note 12 — Related Party Transactions

We lease our administrative facilities from Musk Ox Properties, LP, which in turn is owned by Messrs. Perry T. Massie, Chairman of the Board and Thomas H. Massie, both of whom are principal stockholders and directors of the Company. The lease agreement has a five-year term, expiring on December 31, 2010, with 2 renewal options (between 2 and 5 years) exercisable at our discretion. Monthly rent payments under this lease agreement were \$29 with a 3% per year escalation clause. On April 24, 2007, in conjunction with the sale of the Membership Division, which resulted in our occupying less space, we amended the lease and the monthly rent payment was reduced to \$17 per month through the end of 2007 with a 3% per year escalator clause thereafter. We paid Musk Ox Properties, LP approximately \$216, \$254 and \$349 in the year ended December 31, 2008, 2007 and 2006, respectively. We recognized rent expense related to this lease of \$213, \$266 and \$371 in the year ended December 31, 2008, 2007 and 2006, respectively.

We have engaged Narrowstep, Inc. to assist us in developing our broadband capabilities. Roger L. Werner, Chief Executive Officer, is a shareholder and member of the board of directors of Narrowstep. During the year ended December 31, 2008 and 2007, we paid Narrowstep \$77 and \$47, respectively. We believe the terms of the contract reflect market rates for similar services.

Note 13 — Discontinued Operations

In April 2007 our Board of Directors, after considering reports of consultants and on-going analysis of management, decided that the operations of the Membership Division, comprised of Gold Prospector's Association of America, LLC and LDMA-AU, Inc., was no longer strategic to the core business of Outdoor Channel Holdings. We applied the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") to the Membership Division's assets and liabilities classifying them as assets and liabilities of discontinued operations. The sale of the Membership Division was for its net asset value and accordingly we have not adjusted its carrying value. The sale was consummated on April 24, 2007.

Prior to June 30, 2007, we had reported separate segment information in our filings for the operations of TOC and Membership Division in the same format as reviewed by our Chief Operating Decision Maker. Due to the discontinued operations of the Membership Division, we operate in a single segment.

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

The results of the Membership Division are as follows:

	<u>Year Ended December 31,</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue	\$—	\$1,632	\$5,703
Income (loss) from operations	—	73	441
Income (loss) from discontinued operations, net of tax	\$—	\$ 1	\$ 289

Note 14 — Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of temporary cash investments, available-for-sale securities, and accounts receivable. We reduce credit risk by placing our temporary cash investments with major financial institutions with high credit ratings. At December 31, 2008, we had cash and cash equivalents of approximately \$906 with major financial institutions in certain investment accounts which were not covered by the Federal Deposit Insurance Corporation or the U.S. Treasury Temporary Guarantee Program.

We reduce credit risk related to accounts receivable by routinely assessing the financial strength of our customers. We maintain an allowance for doubtful accounts based on the credit risk of specific customers, historical trends and other information that management believes will adequately provide for credit losses. As of December 31, 2008, we had no single customer that accounted for 10% or more of our account receivable balance.

Changes in our allowance for doubtful accounts were as follows:

	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Expense</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
Year-ended December 31, 2008	\$240	\$709	\$ (58)	\$891
Year-ended December 31, 2007	180	219	(159)	240
Year-ended December 31, 2006	266	85	(171)	180

Note 15 — 401(k) Savings Plan

We maintain a 401(k) Plan (the “401(k) Plan”) which includes a discretionary match provision. We make matching contributions to the 401(k) Plan in the amount of 50% of the first 6% of wages deferred by each participating employee up to statutory maximums. During 2008, 2007 and 2006, we incurred total charges of approximately \$145, \$105 and \$120 for employer matching contributions, respectively.

Note 16 — Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	<u>2008</u>	<u>2007</u>
Trade accounts payable	\$ 855	\$1,498
Accrued payroll and related expenses	2,665	507
Estimated make-good accrual	252	296
Accrued expenses	<u>2,151</u>	<u>1,857</u>
Total	<u>\$5,923</u>	<u>\$4,158</u>

OUTDOOR CHANNEL HOLDINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)
(In thousands, except per share data)

Note 17 — Quarterly Financial Information (Unaudited)

Summarized unaudited operating data for each of the quarters in the years ended December 31, 2008 and 2007 follows:

	Three Months Ended			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2008				
Revenue	\$11,680	\$13,047	\$14,956	\$14,374
Income (loss) from operations	(1,597)	230	3,738	2,468
Net income (loss)	(781)	271	2,394	488
Earnings (loss) per common share:				
Basic	\$ (0.03)	\$ 0.01	\$ 0.10	\$ 0.02
Diluted	\$ (0.03)	\$ 0.01	\$ 0.09	\$ 0.02
2007				
Revenue	\$10,993	\$11,296	\$12,542	\$11,615
Income (loss) from operations	(1,932)	(1,056)	583	(1,036)
Net income (loss)	(727)	(1,070)	1,498	(1,579)
Earnings (loss) per common share:				
Basic	\$ (0.03)	\$ (0.04)	\$ 0.06	\$ (0.06)
Diluted	\$ (0.03)	\$ (0.04)	\$ 0.06	\$ (0.06)

Note 18 — Subsequent Events (Unaudited)

On January 12, 2009, the Company entered into and completed an asset purchase agreement (the “Asset Purchase Agreement”) with Winnercomm, Inc., an Oklahoma corporation and wholly-owned subsidiary of Winnercomm Holdings, Inc., a Delaware corporation, Cablecam, LLC, an Oklahoma limited liability company, and Skycam, LLC, an Oklahoma limited liability company (collectively, the “Sellers”), pursuant to which the Company purchased certain assets and assumed certain liabilities of the Sellers (the “Asset Purchase”). The Sellers’ businesses relate to the production, development and marketing of sports programming and aerial camera systems. The purchased assets consist of equipment, intellectual property, accounts receivable and other assets related to the businesses. The cash purchase price for the Asset Purchase was \$5,750,000 plus the assumption of certain liabilities.

On February 25, 2009, the Company entered into a Rule 10b5-1 stock repurchase plan to repurchase up to \$10 million of its stock at specified prices. All repurchases under the plan shall be in accordance with Rule 10b-18 of the Securities Exchange Act of 1934. The stock repurchase program commenced March 3, 2009 and will cease upon the earlier of December 31, 2009 or completion of the program.

* * *

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures designed to provide reasonable assurance of achieving the objective that information in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified and pursuant to the regulations of the Securities and Exchange Commission. Disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure the information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that our system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2008, the end of the period covered by this report. Based on this evaluation, we have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported, completely and accurately, within the time periods specified in SEC rules and forms.

Changes in internal control over financial reporting. During the year ended December 31, 2008 management took corrective action surrounding our financial statement closing process including supervision and review of complex accounting and disclosure requirements. Management implemented accounting software that will enhance our capabilities and improve controls surrounding accounting for share-based awards to employees and non-employees. Additional substantive review was performed by management to provide assurance that increased controls related to income taxes are adequate and effective. In addition, management has hired additional CPAs to bolster our U.S. GAAP expertise and has implemented training of recently hired personnel who oversee and administer our remediated controls. Management, with the oversight of our Audit Committee and the assistance of outside consultants has remediated the previously identified material weaknesses and these remediating controls have been successfully placed in operation and tested as of December 31, 2008. Other than the remediation of the material weaknesses noted above, there were no other changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's report on internal control over financial reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors of Outdoor Channel Holdings, Inc.:

We have audited Outdoor Channel Holdings Inc.'s and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Outdoor Channel Holdings, Inc.'s and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Outdoor Channel Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Outdoor Channel Holdings, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and our report dated February 26, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2009

ITEM 9B. OTHER INFORMATION.

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information required by Item 10 of Part III is included in our Proxy Statement relating to our 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information required by Item 13 of Part III is included in our Proxy Statement relating to our 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information required by Item 14 of Part III is included in our Proxy Statement relating to our 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following documents are included as part of this Annual Report on Form 10-K.

(1) Financial Statements

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All schedules are omitted as the information is not required, is not material or is otherwise provided.

(3) List of exhibits required by Item 601 of Regulation S-K. See part (b) below.

(b) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	Amended and Restated Agreement and Plan of Merger among The Outdoor Channel, Inc., Outdoor Channel Holdings, Inc. and Gold Prospector's Association of America, Inc. dated as of April 20, 2004, as amended and restated as of May 12, 2004 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 18, 2004 and incorporated herein by reference).
2.2	Agreement and Plan of Merger between Outdoor Channel Holdings, Inc., a Delaware corporation, and Outdoor Channel Holdings, Inc., an Alaska corporation, dated as of September 8, 2004 (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 20, 2004 and incorporated herein by reference).
3.1	Certificate of Incorporation of Outdoor Channel Holdings, Inc, a Delaware corporation (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 20, 2004 and incorporated herein by reference).
3.2	By-Laws of Outdoor Channel Holdings, Inc., a Delaware corporation (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on September 20, 2004 and incorporated herein by reference)
4.1	Instruments defining the rights of security holders, including debentures (see exhibits 3.1 and 3.2 above).
10.1	Letter of intent dated August 27, 1993, regarding the proposed acquisition of Gold Prospector's Association of America, Inc. by the Company (filed as Exhibit 10.4 to the Company's Form 10-Q for the quarter ended September 30, 1993 and incorporated herein by reference).
10.2	Agreement and Plan of Reorganization dated February 13, 1995, by and between the Registrant and Gold Prospector's Association of America, Inc. (filed as Exhibit B to the Company's Form 8-K dated February 13, 1995 and incorporated herein by reference).
10.3*	Form of Indemnification Agreement between Outdoor Channel Holdings, Inc. and its directors and certain executive officers (filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).
10.4	Revolving Credit Agreement and related agreements by and between the Company and U.S. Bank N.A. dated September 30, 2004 (filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2004 and incorporated herein by reference).
10.5*	1995 Stock Option Plan (filed as Exhibit 10.6 to the Company's Form 10-KSB for the year ended December 31, 1995 and incorporated herein by reference).
10.6*	Form of Stock Option Agreement pursuant to the Company's 1995 Stock Option Plan (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-8 with respect to the shares underlying such plan that was filed on November 12, 2004 and incorporated herein by reference).

<u>Exhibit Number</u>	<u>Description</u>
10.7*	The Outdoor Channel, Inc. 1997 Stock Option Plan (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 with respect to the shares underlying the options assumed by the Company under such plan that was filed on November 12, 2004 and incorporated herein by reference).
10.8*	Form of Stock Option Agreement pursuant to The Outdoor Channel, Inc. 1997 Stock Option Plan (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-8 with respect to the shares underlying the options assumed by the Company under such plan that was filed on November 12, 2004 and incorporated herein by reference).
10.9*	Non-Statutory Stock Option Plan and Agreement, dated as of November 13, 2003, by and between the Company and William A. Owen, as amended (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 with respect to the shares underlying such plan that was filed on November 12, 2004 and incorporated herein by reference).
10.10*	Non-Employee Directors Stock Option Plan, as amended (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 with respect to the shares underlying such plan that was filed on November 12, 2004 and incorporated herein by reference).
10.11*	Form of Stock Option Agreement pursuant to Non-Employee Directors Stock Option Plan (filed as Exhibit 10.13 to the Company's Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference).
10.12*	2004 Long-Term Incentive Plan (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 with respect to the shares underlying such plan that was filed on November 12, 2004 and incorporated herein by reference).
10.13*	Form of Stock Option Award Agreement pursuant to 2004 Long-Term Incentive Plan (filed as Exhibit 99.1 to the Company's Form 8-K dated December 20, 2004 and incorporated herein by reference).
10.14*	Form of Restricted Shares Award Agreement pursuant to 2004 Long-Term Incentive Plan (filed as Exhibit 99.2 to the Company's Form 8-K dated December 20, 2004 and incorporated herein by reference).
10.15	Omitted.
10.16*	Outdoor Channel Holdings, Inc. Executive Annual Cash Bonus Plan effective April 21, 2005 (filed as Exhibit 10.2 to the Company's Form 10-Q/A for the quarter ended March 31, 2005 and incorporated herein by reference).
10.17*	Selling Stockholders Registration Rights Agreement, dated as of June 27, 2005, among Outdoor Channel Holdings, Inc. and the selling stockholders who are a party (filed as Exhibit 10.1 to the Company's current report on Form 8-K filed on June 28, 2005 and incorporated herein by reference).
10.18	Amendment to Loan Agreement and Note and related agreements by and between the Company and U.S. Bank N.A. dated October 18, 2005 (filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
10.19	Term Loan Agreement and related agreements by and between 43455 BPD, LLC and U.S. Bank N.A. dated as of October 18, 2005 (filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
10.20	Term Loan Agreement and related agreements by and between the Company and U.S. Bank N.A. dated as of October 18, 2005 (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
10.21*	Optionholders Registration Rights Agreement by and among the Company, Ray V. Miller and Elizabeth J. Sanderson dated as of December 5, 2005 (filed as Exhibit 10.1 to the Company's current report on Form 8-K filed on December 6, 2005 and incorporated herein by reference).
10.22*	Lease by and between the Company and Musk Ox Properties, L.P. dated as of January 1, 2006 (filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on March 16, 2006 and incorporated herein by reference).
10.23*	Employment Agreement with Roger L. Werner, Jr., effective as of October 16, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 20, 2006 and incorporated herein by reference).
10.24*	Form of Performance Unit Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 20, 2006 and incorporated herein by reference).

<u>Exhibit Number</u>	<u>Description</u>
10.25*	Amendment of Employment Agreement with Roger L. Werner, Jr., effective as of November 9, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 9, 2006 and incorporated herein by reference).
10.26	Separation Agreement and Release between The Outdoor Channel, Inc. and Mr. Andrew J. Dale dated December 21, 2006 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2006 and incorporated herein by reference).
10.27	Consulting Agreement between The Outdoor Channel, Inc. and Mr. Andrew J. Dale dated January 2, 2007 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 28, 2006 and incorporated herein by reference).
10.28	Form of Change of Control Severance Agreement (filed as Exhibit 10.28 to the Company's Form 10-K dated March 17, 2008 and incorporated herein by reference).
10.29	Amendment to Loan Agreement and Note and related agreements by and between the Company and U.S. Bank N.A. dated as of September 21, 2007 (filed as Exhibit 10.29 to the Company's Form 10-Q dated February 1, 2008 and incorporated herein by reference).
10.30	Purchase Agreement by and between The Gold Business, LLC, Outdoor Channel Holdings, Inc. and Gold Prospector's Association of America, Inc. dated April 24, 2007 (filed as Exhibit 10.1 to the Company's Form 10-Q dated May 10, 2007 and incorporated herein by reference).
10.31	First Amendment to Lease dated April 24, 2007, by and between Musk Ox Properties, L.P. and Outdoor Channel Holdings, Inc. (filed as Exhibit 10.2 to the Company's Form 10-Q dated May 10, 2007 and incorporated herein by reference).
10.32	Separation Agreement and Release between Outdoor Channel Holdings, Inc. and Mr. William A. Owen dated December 14, 2007 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 17, 2007 and incorporated herein by reference).
10.33	Consulting Agreement between Outdoor Channel Holdings, Inc. and Mr. William A. Owen dated as of December 15, 2007 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 17, 2007 and incorporated herein by reference).
10.34	Form of Stock Repurchase Plan and Agreement.
10.35	Asset Purchase Agreement by and among Cablecam LLC, Skycam LLC, Winnercomm Holdings, Inc and Winnercomm, Inc., and Outdoor Channel Holdings, Inc., dated January 12, 2009 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 16, 2009 and incorporated herein by reference).
21.1	Subsidiaries of Registrant
23.1	Consent of J.H. Cohn LLP, Independent Registered Public Accounting Firm
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on signature page)
31.1	Certification by Chief Executive Officer
31.2	Certification by Chief Financial Officer
32.1**	Section 1350 Certification by Chief Executive Officer
32.2**	Section 1350 Certification by Chief Financial Officer

* Designates a management contract or compensatory plan or arrangement.

** Pursuant to Commission Release No. 33-8238, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act of 1934, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OUTDOOR CHANNEL HOLDINGS, INC.

By: /s/ Roger L. Werner, Jr.

Roger L. Werner, Jr.,
Chief Executive Officer and President
Dated: March 9, 2009

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Roger L. Werner, Jr. or Shad L. Burke, his or her attorney-in-fact, with power of substitution in any and all capacities, to sign any amendments to this annual report on Form 10-K, and to file the same with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that the attorney-in-fact or his or her substitute or substitutes may do or cause to be done by virtue hereof. This power of attorney may be executed in multiple counterparts, each of which shall be deemed an original, but which taken together shall constitute one instrument.

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Perry T. Massie</u> Perry T. Massie	Chairman of the Board, Director	March 9, 2009
<u>/s/ Roger L. Werner, Jr.</u> Roger L. Werner, Jr.	Chief Executive Officer and President (Principal Executive Officer), Director	March 9, 2009
<u>/s/ Shad L. Burke</u> Shad L. Burke	Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2009
<u>/s/ Thomas H. Massie</u> Thomas H. Massie	Vice Chairman of the Board, Director	March 9, 2009
<u>/s/ Ajit M. Dalvi</u> Ajit M. Dalvi	Director	March 9, 2009
<u>/s/ David D. Kinley</u> David D. Kinley	Director	March 9, 2009
<u>/s/ David C. Merritt</u> David C. Merritt	Director	March 9, 2009
<u>/s/ Michael L. Pandzik</u> Michael L. Pandzik	Director	March 9, 2009
<u>/s/ T. Bahnson Stanley</u> T. Bahnson Stanley	Director	March 9, 2009

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Perry T. Massie
Chairman of the Board

Thomas H. Massie
Vice Chairman of the Board

Ajit M. Dalvi
Non-Executive Director
Director, Scientific Learning Corporation
Formerly Senior Vice President, Cox Communications

David D. Kinley
Non-Executive Director
President, Kinley & Associates
Formerly Chairman, National Cable Television Cooperative (NCTC)

David C. Merritt
Non-Executive Director
Director, Charter Communications, Inc.
Director, Calpine Corporation

Michael L. Pandzik
Non-Executive Director
Founding President, National Cable Television Cooperative (NCTC)

T. Bahnson Stanley
Non-Executive Director
Formerly Executive Vice President – Strategy and Development,
The Weather Channel

Roger L. Werner, Jr.
President and Chief Executive Officer

PRINCIPAL OFFICERS

Roger L. Werner, Jr.
President and Chief Executive Officer

Thomas E. Hornish
Executive Vice President, Chief Operating Officer and
General Counsel

Shad L. Burke
Chief Financial Officer

Douglas J. Langston
Chief Accounting Officer

Independent Auditor

Ernst & Young, LLP
Los Angeles, CA

SEC Counsel

Wilson Sonsini Goodrich & Rosati
San Diego, CA

Investor Relations

Brainerd Communicators, Inc.
Brad Edwards
521 Fifth Avenue, 8th Floor
New York, NY 10175
Tel: (212) 986-6667
edwards@braincomm.com

Transfer Agent

If you have questions about share certificates, or if you need to transfer shares or change the name in which they are registered, please contact:

Computershare Trust Company
P.O. Box 43078
Providence, RI 02940
Tel: (800) 962-4284
www.computershare.com/investor

Securities Listing

Outdoor Channel Holdings' common stock is traded on the Nasdaq Global Market under the symbol OUTD.

Corporate Headquarters

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www.outdoorchannel.com



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