

HEMISPHERE MEDIA GROUP, INC.

Form 10-Q

August 08, 2016

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35886

## HEMISPHERE MEDIA GROUP, INC.

(Exact name of registrant as specified in its charter)

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

**80-0885255**  
(I.R.S. Employer Identification No.)

**Hemisphere Media Group, Inc.**  
**4000 Ponce de Leon Boulevard**  
**Suite 650**  
**Coral Gables, FL**  
(Address of principal executive offices)

**33146**  
(Zip Code)

**(305) 421-6364**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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<b>Class of Stock</b>	<b>Shares Outstanding as of August 5, 2016</b>
Class A common stock, par value \$0.0001 per share	12,366,696 shares
Class B common stock, par value \$0.0001 per share	30,027,418 shares

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**HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES**

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**June 30, 2016**

**(Unaudited)**

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**PART I**

*Unless otherwise indicated or the context requires otherwise, in this disclosure, references to the Company, Hemisphere, registrant, we, us or our refers to Hemisphere Media Group, Inc., a Delaware corporation and, where applicable, its consolidated subsidiaries; Acquired Cable Networks refers to (i) Pasioness, (ii) Centroamerica TV and (iii) Television Dominicana; Business refers collectively to our consolidated operations; Cable Networks refers to our Networks (as defined below) with the exception of WAPA and WAPA2 Deportes; Cable Networks Acquisition refers to the acquisition of the Acquired Cable Networks; Centroamerica TV refers to HMTV Centroamerica TV, LLC, a Delaware limited liability company; Cinelatino refers to Cine Latino, Inc., a Delaware corporation; MVS refers to Grupo MVS, S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable (variable capital corporation) and its affiliates, as applicable; Distributors refers collectively to satellite systems, telephone companies ( telcos ), and cable multiple system operators ( MSO s ), and the MSO s affiliated regional or individual cable systems. Networks refers collectively to WAPA, WAPA2 Deportes, WAPA America, Cinelatino, Pasioness, Centroamerica TV and Television Dominicana; Pasioness refers collectively to HMTV Pasioness US, LLC, a Delaware limited liability company and HMTV Pasioness LatAm, LLC, a Delaware limited liability company; Television Dominicana refers to HMTV TV Dominicana, LLC, a Delaware limited liability company; Term Loan Facility refers to our term loan facility amended on July 31, 2014 as set forth on Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2015; WAPA refers to Televisi3n de Puerto Rico, LLC, a Delaware limited liability company; WAPA America refers to WAPA America, Inc., a Delaware corporation; WAPA2 Deportes refers to a sports television network in Puerto Rico operated by WAPA; WAPA.TV refers to a news and entertainment website in Puerto Rico operated by WAPA.*

**FORWARD-LOOKING STATEMENTS**

**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.**

Statements in this Quarterly Report on Form 10-Q (this Quarterly Report ), including the exhibits attached hereto, future filings by us with the Securities and Exchange Commission, our press releases and oral statements made by, or with the approval of, our authorized personnel, that relate to our future performance or future events, may contain certain statements about us and our consolidated subsidiaries that do not directly or exclusively relate to historical facts. These statements are, or may be deemed to be, forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

These forward-looking statements are necessarily estimates reflecting the best judgment and current expectations, plans, assumptions and beliefs about future events (in each case subject to change) of our senior management and management of our subsidiaries (including target businesses) and involve a number of risks, uncertainties and other factors, some of which may be beyond our control that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Without limitation, any statements preceded or followed by or that include the words targets, plans, believes, expects, intends, will, likely, may, anticipates, estimates, projects, should, positioned, strategy, future, potential, plan, forecast, or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These include, but are not limited to, the Company s future financial and operating results, plans, objectives, expectations and intentions and other statements that are not historical facts.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition to the risk factors described in Item 1A Risk Factors in this Quarterly Report on Form 10-Q, those factors include:

- the reaction by advertisers, programming providers, strategic partners, the Federal Communications Commission (the FCC) or other government regulators to businesses that we acquire;
- the potential for viewership of our Networks programming to decline or unexpected reductions in the number of subscribers to our Networks;
- the risk that we may fail to secure sufficient or additional advertising and/or subscription revenue;
- the inability of advertisers or affiliates to remit payment to us in a timely manner or at all;

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- the risk that we may become responsible for certain liabilities of the Acquired Cable Networks;
- future financial performance, including our ability to obtain additional financing in the future on favorable terms;
- the failure of our Business to produce projected revenues or cash flows;
- reduced access to capital markets or significant increases in borrowing costs;
- our ability to successfully manage relationships with customers and Distributors and other important relationships;
- continued consolidation of Distributors in the marketplace;
- a failure to secure affiliate agreements or renewal of such agreements on less favorable terms;
- disagreements with our Distributors over contract interpretation;
- our success in acquiring, investing in and integrating complementary businesses;
- the outcome of any pending or threatened litigation;
- the loss of key personnel and/or talent or expenditure of a greater amount of resources attracting, retaining and motivating key personnel than in the past;

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- strikes or other union job actions that affect our operations, including, without limitation, failure to renew our collective bargaining agreements on mutually favorable terms;
- changes in technology including changes in the distribution and viewing of television programming, expanded deployment of personal video recorders, video on demand, internet protocol television, mobile personal devices and personal tablets and their impact on subscription and television advertising revenue;
- the failure or destruction of satellites or transmitter facilities that we depend upon to distribute our Networks;
- uncertainties inherent in the development of new business lines and business strategies;
- changes in pricing and availability of products and services;
- changes in the nature of key strategic relationships with partners and Distributors;
- the ability of suppliers and vendors to deliver products and services;
- fluctuations in foreign currency exchange rates and political unrest and regulatory changes in the international markets in which we operate;
- the deterioration of general economic conditions either nationally or in the local markets in which we operate, including, without limitation, in the Commonwealth of Puerto Rico;
- changes in the size of the U.S. Hispanic population, including the impact of federal and state immigration legislation and policies on both the U.S. Hispanic population and persons emigrating from Latin America;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the FCC and adverse outcomes from regulatory proceedings; and
- competitor responses to our products and services.



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The list of factors above is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All subsequent written and oral forward-looking statements concerning the matters addressed in this Quarterly Report and attributable to us or any person acting on our behalf are qualified by these cautionary statements.

The forward-looking statements are based on current expectations about future events and are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, these expectations may not be achieved. We may change our intentions, beliefs or expectations at any time and without notice, based upon any change in our assumptions or otherwise. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****HEMISPHERE MEDIA GROUP, INC.****Condensed Consolidated Balance Sheets**

(amounts in thousands, except share and par value amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
Current Assets		
Cash	\$ 147,168	\$ 179,532
Accounts receivable, net of allowance for doubtful accounts of \$1,825 and \$1,512, respectively	25,089	25,519
Due from related parties	1,437	1,722
Programming rights	6,826	5,552
Prepays and other current assets	6,220	4,541
<b>Total current assets</b>	<b>186,740</b>	<b>216,866</b>
Programming rights	9,629	7,457
Property and equipment, net	25,568	25,397
Deferred financing costs, net	2,004	2,254
Broadcast license	41,356	41,356
Goodwill	164,887	164,887
Other intangibles, net	71,494	78,185
Deferred taxes	13,280	13,280
Other assets	1,905	1,468
<b>Total Assets</b>	<b>\$ 516,863</b>	<b>\$ 551,150</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities		
Accounts payable	\$ 2,478	\$ 2,463
Due to related parties	548	1,182
Accrued agency commissions	3,413	8,168
Accrued compensation and benefits	3,739	3,995
Accrued marketing	6,886	6,569
Taxes payable	1,149	1,722
Other accrued expenses	2,968	3,047
Programming rights payable	4,192	4,426
Current portion of long-term debt		8,278
<b>Total current liabilities</b>	<b>25,373</b>	<b>39,850</b>
Programming rights payable	2,221	365
Long-term debt, net of current portion	211,834	211,645
Deferred taxes	18,269	17,928
Defined benefit pension obligation		