

HEMISPHERE MEDIA GROUP, INC.

Form 10-Q

November 09, 2015

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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 September 30, 2015

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.**  
**2000 Ponce de Leon Boulevard**  
**Suite 500**  
**Coral Gables, FL**  
(Address of principal executive offices)

**33134**  
(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 November 6, 2015</b>
Class A common stock, par value \$0.0001 per share	15,602,725 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**

**INDEX TO FORM 10-Q**

**September 30, 2015**

**(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; Amended Term Loan Facility refers to our term loan facility amended on July 31, 2014 as set forth on Exhibit 10.4 to the Company's Annual Report on Form 10-K; Azteca refers to Azteca Acquisition Corporation, a Delaware blank check corporation; Azteca Merger Sub refers to Hemisphere Merger Sub II, Inc., a Delaware corporation; Business refers collectively to our consolidated operations; 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; Cine Merger Sub refers to Hemisphere Merger Sub III, 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 (MSOs), and the MSOs 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; Transaction collectively refers to the mergers of WAPA Holdings and WAPA Merger Sub, Azteca and Azteca Merger Sub, and Cinelatino and Cine Merger Sub, resulting in Azteca, WAPA Holdings and Cinelatino becoming indirect wholly-owned subsidiaries of Hemisphere; WAPA refers to Telecentro of Puerto Rico, LLC, a Delaware limited liability company; WAPA America refers to WAPA America, Inc., a Delaware corporation; WAPA Holdings refers to WAPA Holdings, LLC, a Delaware limited liability company and, where applicable, its consolidated subsidiaries; WAPA Merger Sub refers to Hemisphere Merger Sub I, LLC, a Delaware limited liability company; WAPA2 Deportes refers to a sports television network 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. The statements are 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, statements relating to the synergies and the benefits that we expect to achieve from the Cable Networks Acquisition, including future financial and operating results, the Company's 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 report, 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;

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- our ability to successfully integrate the Acquired Cable Business and achieve the expected synergies from that integration at the expected costs;
- the ability to realize anticipated growth and growth strategies of the company since the completion of (i) the Transaction and (ii) the Cable Networks Acquisition;
- the ability to realize the anticipated benefits of (i) the Transaction and (ii) the Cable Networks Acquisition, in each case, which may be affected by, among other things, competition in the industry in which we operate;
- the risk that we may become responsible for certain liabilities of the Acquired Cable Networks;
- the costs expected to be incurred in connection with the integration of us and the Acquired Cable Networks;
- the risk that integrating our Business with that of the Acquired Cable Networks may divert our management's attention;
- future financial performance, including our ability to obtain additional financing in the future on favorable terms;
- 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;
- the inability of advertisers or affiliates to remit payment to us in a timely manner or at all;

- disagreements with our distributors over contract interpretation;
- the risk that ratings on Cinelatino may be negatively impacted by the introduction of advertising on Cinelatino;
- 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;
- strikes or other union job actions that affect our operations;
- changes in technology, including changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand ( VOD ), internet protocol television, mobile personal devices and personal tablets and their impact on subscription and television advertising revenue;
- 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 Puerto Rico;



- changes in, or failure or inability to comply with, government regulations including, without limitation, regulations of the FCC, and adverse outcomes from regulatory proceedings;
- competitor responses to our products and services; and
- a failure to secure affiliate agreements or renewal of such agreements on less favorable terms.

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)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>Assets</b>		
Current Assets		
Cash	\$ 170,399	\$ 142,010
Accounts receivable, net of allowance for doubtful accounts of \$1,646 and \$1,072, respectively	23,636	24,763
Due from related parties	1,448	1,334
Programming rights	5,512	5,441
Deferred taxes	4,487	4,222
Prepaid taxes and other current assets	8,917	8,071
<b>Total current assets</b>	<b>214,399</b>	<b>185,841</b>
Programming rights	7,578	6,652
Property and equipment, net	24,870	23,867
Deferred financing costs, net	2,381	2,758
Broadcast license	41,356	41,356
Goodwill	164,887	164,887
Other intangibles, net	81,531	91,611
Other assets	2,042	1,425
<b>Total Assets</b>	<b>\$ 539,044</b>	<b>\$ 518,397</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities		
Accounts payable	\$ 1,934	\$ 2,176
Due to related parties	991	787
Accrued agency commissions	5,665	6,642
Accrued compensation and benefits	4,209	3,391
Accrued marketing	3,179	3,245
Taxes payable	3,671	927
Other accrued expenses	7,661	4,385
Programming rights payable	4,405	4,228
Current portion of long-term debt	2,250	2,250
<b>Total current liabilities</b>	<b>33,965</b>	<b>28,031</b>
Programming rights payable	274	111
Long-term debt, net of current portion	218,140	219,541
Deferred taxes	9,889	11,670
Defined benefit pension obligation	2,698	2,631
<b>Total Liabilities</b>	<b>264,966</b>	<b>261,984</b>

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**Stockholders Equity**

Preferred stock, \$0.0001 par value; 50,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively			
Class A common stock, \$.0001 par value; 100,000,000 shares authorized; 15,317,441 and 14,518,734 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively		1	1
Class B common stock, \$.0001 par value; 33,000,000 shares authorized; 30,027,418 shares issued and outstanding at September 30, 2015 and December 31, 2014		3	3
Additional paid-in capital		256,797	246,858
Treasury stock, at cost; 229,100 and 146,703 at September 30, 2015 and December 31, 2014, respectively		(3,040)	(1,961)
Retained earnings		20,903	12,098
Accumulated other comprehensive loss		(586)	(586)
<b>Total Stockholders Equity</b>		274,078	256,413
<b>Total Liabilities and Stockholders Equity</b>	\$	539,044	\$ 518,397

See accompanying notes to condensed consolidated financial statements.

Table of Contents**HEMISPHERE MEDIA GROUP, INC.****Condensed Consolidated Statements of Operations****(Unaudited)****(amounts in thousands, except per share amounts)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net revenues	\$ 31,465	\$ 28,781	\$ 93,554	\$ 78,787
<b>Operating Expenses:</b>				
Cost of revenues	10,249	9,174	29,609	26,067
Selling, general and administrative	8,907	8,353	26,816	23,473
Depreciation and amortization	4,283	4,668	12,929	12,077
Other expenses	75	972	381	1,282
Loss on disposition of assets		55	31	70
<b>Total operating expenses</b>	<b>23,514</b>	<b>23,222</b>	<b>69,766</b>	<b>62,969</b>
<b>Operating income</b>	<b>7,951</b>	<b>5,559</b>	<b>23,788</b>	<b>15,818</b>
<b>Other Expenses:</b>				
Interest expense, net	(3,080)	(3,029)	(9,071)	(8,871)
Loss on extinguishment of debt		(1,116)		(1,116)
	(3,080)	(4,145)	(9,071)	(9,987)
<b>Income before income taxes</b>	<b>4,871</b>	<b>1,414</b>	<b>14,717</b>	<b>5,831</b>
Income tax (expense) benefit	(1,961)	(751)	(5,912)	399
<b>Net income</b>	<b>\$ 2,910</b>	<b>\$ 663</b>	<b>\$ 8,805</b>	<b>\$ 6,230</b>
<b>Earnings per share:</b>				
Basic	\$ 0.07	\$ 0.02	\$ 0.21	\$ 0.15
Diluted	\$ 0.07	\$ 0.02	\$ 0.20	\$ 0.15
<b>Weighted average shares outstanding:</b>				
Basic	43,103	42,383	42,748	42,301
Diluted	44,143	42,587	43,563	42,534

See accompanying notes to condensed consolidated financial statements.

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**HEMISPHERE MEDIA GROUP, INC.**

**Condensed Consolidated Statement of Comprehensive Income**

**(Unaudited)**

**(amounts in thousands)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 2,910	\$ 663	\$ 8,805	\$ 6,230
Other comprehensive income				
Comprehensive income	\$ 2,910	\$ 663	\$ 8,805	\$ 6,230

See accompanying notes to condensed consolidated financial statements.

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**HEMISPHERE MEDIA GROUP, INC.**

**Condensed Consolidated Statements of Changes in Stockholders' Equity**

**Nine Months Ended September 30, 2015**

**(Unaudited)**

**(amounts in thousands)**

	Class A Common Stock		Class B Common Stock		Additional	Class A	Retained	Accumulated	
	Shares	Par Value	Shares	Par Value	Paid In	Treasury	Earnings	Other	Total
					Capital	Stock		Loss	
Balance at December 31, 2014	14,519	\$ 1	30,027	\$ 3	\$ 246,858	\$ (1,961)	\$ 12,098	\$ (586)	\$ 256,413
Net income							8,805		8,805
Stock-based compensation					4,123				4,123
Vesting of restricted stock	304				250	(1,079)			(829)
Issuance of shares	479				5,407				5,407
Exercise of stock options	15				159				159
Balance at September 30, 2015	15,317	\$ 1	30,027	\$ 3	\$ 256,797	\$ (3,040)	\$ 20,903	\$ (586)	\$ 274,078

See accompanying notes to condensed consolidated financial statements.

Table of Contents**HEMISPHERE MEDIA GROUP, INC.****Condensed Consolidated Statements of Cash Flows****(Unaudited)****(amounts in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Net Income to Net Cash Provided by Operating Activities:</b>		
Net income	\$ 8,805	\$ 6,230
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,929	12,077
Program amortization	8,430	7,486
Amortization of deferred financing costs	377	380
Amortization of original issue discount	287	214
Stock-based compensation	4,123	4,606
Provision for bad debts	777	767
Loss on disposition of assets	31	70
Loss on extinguishment of debt		1,116
Deferred taxes	(2,046)	(2,189)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	350	(4,552)
Due from related parties	(114)	(204)
Programming rights	(9,427)	(6,969)
Prepaid taxes and other current assets	(1,463)	(6,279)
(Decrease) increase in:		
Accounts payable	(243)	428
Due to related parties	204	(145)
Accrued expenses	5,795	(285)
Programming rights payable	340	(883)
Income tax payable		(117)
Other liabilities	67	111
Net cash provided by operating activities	29,222	11,862
<b>Cash Flows From Investing Activities:</b>		
Acquisition of Cable Networks		(101,891)
Proceeds from sale of assets	3	10
Capital expenditures	(3,885)	(2,010)
Net cash used in investing activities	(3,882)	(103,891)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from term loan		70,565
Deferred financing fees		(756)
Repayments of long-term debt	(1,688)	(21,378)
Purchase of treasury stock	(1,079)	(969)
Proceeds from issuance of stock	5,407	1
Exercise of stock options	159	
Excess tax benefits	250	106
Net cash provided by financing activities	3,049	47,569
Net increase (decrease) in cash	28,389	(44,460)
Cash:		
Beginning	142,010	176,622

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Ending	\$	170,399	\$	132,162
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Supplemental Disclosures of Cash Flow Information:

Cash payments for: