HEMISPHERE MEDIA GROUP, INC.
Form 10-K
March 12, 2019

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2018**

**OR**

o **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**<br>(State or other jurisdiction of incorporation or organization) | **80-0885255**<br>(I.R.S. Employer Identification No.) |
|---|---|
| **4000 Ponce de Leon Blvd., Suite 650**<br>**Coral Gables, FL**<br>(Address of principal executive offices) | **33146**<br>(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)

**Securities Registered Pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Class A common stock, $0.0001 par value | The NASDAQ Stock Market LLC |

Securities Registered Pursuant to Section 12(g) of the Act:

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

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

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 ý or No o.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý or No o.

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. ý

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

| Large Accelerated Filer o | Accelerated Filer ý | Non-accelerated Filer o | Smaller reporting company ý |
|---|---|---|---|
| | | | Emerging growth company o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o or No ý

The aggregate market value of the Class A common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2018, was approximately $236,631,647. No market exists for the shares of Class B common stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act. The Class B common stock is convertible into Class A common stock on a share-for-share basis at the option of the holder. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers and other affiliates of the registrant and persons affiliated with Hemisphere Media Group, Inc. Exclusion of shares held by any person should not be construed as a conclusion by the registrant, or an admission by any such person, that such person is an "affiliate" of the Company, as defined by applicable securities laws.

| Class of Stock | Shares Outstanding as of March 7, 2019 |
|---|---|
| Class A common stock, par value $0.0001 per share | 19,710,855 shares |
| Class B common stock, par value $0.0001 per share | 19,720,381 shares |

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the 2018 Annual Meeting of Shareholders.

**HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES**
**INDEX TO FORM 10-K**
**December 31, 2018**


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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; "Business" refers collectively to our consolidated operations; "Cable Networks" refers to our Networks (as defined below) with the exception of WAPA and WAPA Deportes; "Canal 1" refers to a joint venture among us and Radio Television Interamericana S.A., Compania de Medios de Informacion S.A.S. and NTC Nacional de Television y Comunicaciones S.A. to operate a broadcast television network in Colombia; "Centroamerica TV" refers to HMTV Centroamerica TV, LLC, a Delaware limited liability company; "Cinelatino" refers to Cine Latino, Inc., a Delaware corporation; "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; "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; "Networks" refers collectively to WAPA, WAPA Deportes, WAPA America, Cinelatino, Pasiones, Centroamerica TV and Television Dominicana; "Nielsen" refers to Nielsen Media Research; "Pantaya" refers to Pantaya, LLC, a Delaware limited liability company, a joint venture among us and a subsidiary of Lions Gate Entertainment, Inc.; "Pasiones" refers collectively to HMTV Pasiones US, LLC, a Delaware limited liability company, and HMTV Pasiones LatAm, LLC, a Delaware limited liability company; "REMEZCLA" refers to Remezcla, LLC, a New York limited liability company; "Second Amended Term Loan Facility" refers to our Term Loan Facility amended on February 14, 2017 as set forth on Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017; "Snap Media" refers to Snap Global, LLC, a Delaware limited liability company and its wholly owned subsidiaries; "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, 2017; "WAPA" refers to Televicentro of Puerto Rico, LLC, a Delaware limited liability company; "WAPA America" refers to WAPA America, Inc., a Delaware corporation; "WAPA 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; "United States" or "U.S." refers to the United States of America, including its territories, commonwealths and possessions.*

## FORWARD-LOOKING STATEMENTS

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

Statements in this Annual Report on Form 10-K for the year ended December 31, 2018 (this "Annual 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 Hemisphere Media Group, Inc. (the "Company") and its 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," "would," "expect," "positioned," "strategy," "future," "potential,"

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"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 (including growth and earnings), 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 Annual Report on Form 10-K, those factors include:

- the effects of Hurricanes Irma and Maria in the short and long-term on our business, including, without limitation, affiliate revenue that we receive and the advertising market in Puerto Rico as well as our customers, employees, third-party vendors and suppliers and the short and long-term migration shifts in Puerto Rico;

- our ability to timely and fully recover proceeds under our insurance policies in Puerto Rico following Hurricanes Maria and Irma, including one of our policies with an insurance carrier which was recently placed under an order of rehabilitation;

- 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;

- the risk that we may become responsible for certain liabilities of the businesses that we acquire or joint ventures we enter into;

- 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 third parties;

- 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;
- uncertainties regarding the financial results of equity method investees and changes in the nature of key strategic relationships with partners and Distributors;
- changes in domestic and foreign laws or regulations under which we operate;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the U.S. or in the countries in which we operate;
- 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.

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 Annual Report on Form 10-K 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.

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**Item 1. Business.**

**OVERVIEW**

**Our Company**

We are a leading U.S. Spanish-language media company serving the fast growing and highly attractive U.S. Hispanic and Latin American markets with leading broadcast and cable television networks and digital content platforms including five Spanish-language cable television networks distributed in the U.S., two Spanish-language cable television networks distributed in Latin America, the #1-rated broadcast television network in Puerto Rico, the #3-rated broadcast television network in Colombia, a Spanish-language video subscription service distributed in the U.S. and a leading distributor of television and content in Latin America.

Headquartered in Miami, Florida, our portfolio consists of the following:

*Cinelatino*: the leading Spanish-language cable movie network with over 21 million subscribers across the U.S., Latin America and Canada, including 4.6 million subscribers in the U.S. and 16.8 million subscribers in Latin America. Cinelatino is programmed with a lineup featuring the best contemporary films and original television series from Mexico, Latin America and the U.S. Driven by the strength of its programming and distribution, Cinelatino is the #2-Nielsen rated Spanish-language cable television network in the U.S. overall, based on coverage ratings.

*WAPA*: the leading broadcast television network and television content producer in Puerto Rico. WAPA has been the #1-rated broadcast television network in Puerto Rico since the start of Nielsen audience measurement nine years ago. WAPA is Puerto Rico's news leader and the largest local producer of news and entertainment programming, producing nearly 60 hours in the aggregate each week of programming that is aired on WAPA and WAPA America. Through WAPA's multicast signal, we distribute WAPA Deportes, a leading sports television network in Puerto Rico, featuring *Major League Baseball (MLB)*, *National Basketball Association (NBA)* and professional sporting events from Puerto Rico. Additionally, we operate WAPA.TV, a leading news and entertainment website in Puerto Rico featuring news and content produced by WAPA.

*WAPA America*: a cable television network serving primarily Puerto Ricans and other Caribbean Hispanics in the U.S., collectively the second largest segment of the U.S. Hispanic population. WAPA America's programming features news and entertainment offerings produced by WAPA. WAPA America is distributed in the U.S. to over 4.4 million subscribers, excluding digital basic subscribers.

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*Pasiones*: a cable television network dedicated to showcasing the most popular telenovelas and serialized dramas, licensed from major producers and distributors worldwide. Pasiones is distributed in the U.S. to approximately 4.4 million subscribers and in Latin America to approximately 16.0 million subscribers and is currently the highest rated cable television network devoted to telenovelas in prime time.

*Centroamerica TV:* a cable television network targeting Central Americans living in the U.S., the third largest U.S. Hispanic group and the fastest growing segment of the U.S. Hispanic population. Centroamerica TV features the most popular news and entertainment from Central America, as well as soccer programming from the top professional soccer leagues in the region. Centroamerica TV is distributed in the U.S. to approximately 4.3 million subscribers.

*Television Dominicana:* a cable television network targeting Dominicans living in the U.S., the fourth largest U.S. Hispanic group. Television Dominicana features the most popular news and entertainment from the Dominican Republic and is distributed in the U.S. to approximately 2.3 million subscribers.

*Canal 1*: the #3-rated broadcast television network in Colombia. We own Canal 1 in partnership with leading producers of news and entertainment content in Colombia. The partnership was awarded a 10-year renewable broadcast television concession in 2016. The partnership began operating Canal 1 on May 1, 2017 and launched a new programming lineup on August 14, 2017.

*Pantaya:* a cross-platform Spanish-language video subscription service that allows audiences to access many of the best and most current Spanish-language films and includes content from our movie library, as well as Pantelion's U.S. theatrical titles, Lionsgate's movie library, and Grupo Televisa's theatrical releases in Mexico. We own a 25% interest in Pantaya in partnership with Lionsgate. The service launched in August 2017.

*Snap Media:* a distributor of content to broadcast and cable television networks and OTT and SVOD platforms in Latin America. Snap will be responsible for the distribution of content owned and/or controlled by our networks, as well as content to be produced by the production joint venture between Snap Media and MarVista Entertainment ("MarVista"). On November 26, 2018, we acquired a 75% interest in Snap Global, LLC ("Snap Media"), and in connection with the acquisition, we entered into a joint venture with MarVista, a shareholder of Snap Media, to produce original movies and series.

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*REMEZCLA:* a digital media company targeting English speaking and bilingual U.S. Hispanic millennials through innovative content. On April 28, 2017, we acquired a 25.5% interest in REMEZCLA.

Hemisphere was incorporated in Delaware on January 16, 2013. Shares of our Class A common stock, par value $0.0001 per share ("Class A common stock") are publicly traded under the symbol "HMTV" on the Nasdaq Global Market ("NASDAQ").

**Our Strategy**

Our strategy is to provide unique programming focused on underserved but significant segments of the U.S. Hispanic population, allowing us to reach a deeper and broader U.S. Hispanic demographic than our competitors and to expand our presence in Latin America. Our objective is to maintain and improve our position as a leading U.S. Spanish-language media company by, among other things, (i) investing in content for our Networks to build viewership, (ii) growing affiliate revenues in Puerto Rico, the U.S. and Latin America, and (iii) driving advertising sales across our networks. Additionally, we continue to look for attractive opportunities to acquire assets that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and primarily seek opportunities which will (i) expand our leadership position in the fast growing and highly desirable U.S. Hispanic pay-TV market, (ii) expand our portfolio within broadcast networks, and/or cable networks in Latin America and (iii) identify opportunities to create and/or distribute content to U.S. Hispanics and Latin Americans through OTT/SVOD platforms. We may also seek a variety of acquisition opportunities, including businesses where we believe an opportunity for value realization is already present, where we can realize synergies with our existing businesses, or that are in need of operational turnaround, which we believe would benefit from our experienced and cohesive management team with the proven ability to develop and grow acquired assets. At any given time, we may be in discussions relating to one or more acquisition opportunities. Additionally, we evaluate various digital strategies, from time to time.

**Employees**

At December 31, 2018, we and our subsidiaries employed 305 full-time persons. In the normal course of business, we use contract personnel to supplement our employee base to meet business needs. We or our subsidiaries may hire additional personnel in connection with the closing of future acquisitions. We believe that employee relations are generally satisfactory. Approximately 130 of our employees based in Puerto Rico are full-time unionized employees covered by two collective bargaining agreements (each, a "CBA" and collectively, the "CBAs"). Our main CBA expires on May 31, 2022 and covers all of our unionized employees except for four employees covered by the other CBA scheduled to expire on June 27, 2019.

**Revenue Sources**

We operate our business in one operating segment. Our two primary sources of revenue are advertising revenues and affiliate revenues. All of our networks generate both advertising revenues and affiliate revenues. Advertising revenue is generated from the sale of advertising time. Our advertising revenue tends to reflect seasonal patterns of our advertisers' demand, which is generally greatest during the fourth quarter of each year, driven by the holiday buying season. In addition, Puerto Rico's political election cycle occurs every four years and WAPA benefits from increased advertising sales in an election year. For example, in 2016, WAPA experienced higher advertising sales as a result of political

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advertising spending during the 2016 governmental elections. The next election in Puerto Rico will occur in 2020.

Affiliate revenues are earned from Distributors of our television networks, including cable, satellite and telecommunication service providers. Our television networks are distributed pursuant to multi-year agreements that generally provide for monthly affiliate revenues with annual rate increases and have terms of varying length. For the year ended December 31, 2018, revenue earned under affiliation agreements with DISH Network, LLC and AT&T Inc. (as successor to DirecTV following the completion of their merger) each accounted for more than 10% of our total net revenues. We recognize affiliate revenues when they are accrued pursuant to the agreements we have entered into with respect to such revenue. We set forth our net revenue, total assets and operating income in "Item 8. Financial Statements and Supplementary Data."

We generate approximately 93% of our net revenues from the United States. For the years ended December 31, 2018 and 2017, we generated $136.2 million and $114.2 million, respectively, from the United States. For the years ended December 31, 2018 and 2017, we generated $10.9 million and $10.3 million, respectively, from outside the United States.

**OUR NETWORKS AND JOINT VENTURES**

**WAPA**

Headquartered in San Juan, Puerto Rico, WAPA is a full-power independent broadcast television network. WAPA was founded in 1954 as the second broadcast television network in the Caribbean and the third in Latin America. WAPA occupies a prime channel position (channel 4) together with its full power repeater stations, WTIN in Ponce and WNJX in Mayagüez. WAPA is also distributed by all cable, satellite and telecommunication service providers in Puerto Rico. WAPA has been the #1-rated broadcast television network in Puerto Rico since the start of Nielsen audience measurement nine years ago.

WAPA owns a 66,500 square foot building housing its state-of-the-art production facilities, television studios, and administrative offices. All of WAPA's news and most of its local programs are produced at WAPA's production facility, which contains four television studios, including the largest television studio in the Caribbean, fully equipped control rooms, digital video, audio, editing, post-editing, and graphic production suites, and a scenery shop which produces all scenery and props for the local productions. WAPA also boasts one of the most technologically advanced news departments in Puerto Rico.

WAPA is Puerto Rico's news leader and the largest local producer of entertainment programming, producing nearly 60 hours in the aggregate each week. In addition to having Puerto Rico's most watched news programming, WAPA's top-rated local shows include *Pégate al Mediodía* (the #1-rated midday program). WAPA also licenses and televises blockbuster Hollywood movies and top-rated U.S. television series dubbed into Spanish. This diverse and unique mix of programming has made WAPA the market leader in Puerto Rico.

In 2009, WAPA launched WAPA Deportes in Puerto Rico through its over-the-air signal and carriage by all cable, satellite and telecommunications distributors in Puerto Rico. WAPA Deportes broadcasts various local and U.S. sports programming, including *MLB*, with exclusive television rights to the World Series and the All-Star Game, *NBA* and Puerto Rico's professional men's basketball league, *Baloncesto Superior Nacional*. WAPA Deportes is the leading local sports network in Puerto Rico.

In 2008, WAPA launched WAPA.TV, which is now one of the most visited local sites in Puerto Rico. WAPA.TV provides up-to-the-minute news and weather, promotional clips of WAPA's most popular shows, additional video content not seen on WAPA, and a platform for viewers to share comments and interact, driving further audience engagement. In 2018, WAPA.TV's mobile-optimized website and apps generated a total of 176 million page views, 69 million visits and an average of 1.8 million monthly unique visitors.

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As a result of the impact of Hurricanes Irma and Maria, Nielsen suspended survey operations in Puerto Rico effective September 7, 2017. Nielsen resumed operations in Puerto Rico on May 1, 2018. As such, all ratings results with respect to WAPA set forth in this Annual Report on Form 10-K for the year ended December 31, 2018 are reported beginning May 1, 2018 (first available ratings date).

**WAPA America**

WAPA America, launched in 2004, is a Spanish-language cable television network targeting viewers from Puerto Rico, as well as the Dominican Republic, Cuba, Venezuela and Colombia (collectively referred to as "Caribbean Hispanics"), who reside in the U.S. Caribbean Hispanics are the second largest U.S. Hispanic population segment, representing 19% of the U.S. Hispanic population. WAPA America is distributed by all major U.S. cable, satellite and telecommunication operators to over 4.4 million subscribers, excluding digital basic subscribers. WAPA America televises the top-rated news and entertainment programming produced by WAPA. WAPA America supplements its programming with acquired telenovelas and cultural programming, popular sports programming from Puerto Rico and other programming from WAPA's library.

WAPA America is primarily distributed on Hispanic programming packages, which generally consist of 20 or more channels, such as Cinelatino, Pasiones, Centroamerica TV, Television Dominicana, CNN en Español, Discovery en Español, History en Español, ESPN Deportes and Fox Deportes (together, "Hispanic Programming Packages"). WAPA America is also distributed in more highly penetrated packages in the major markets of Orlando and Tampa. Hispanic pay-TV subscribers in the U.S. are expected to grow, driven by the continued long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

**Cinelatino**

Cinelatino is the leading Spanish-language cable movie network with more than 21 million subscribers across the U.S., Latin America and Canada. Cinelatino is programmed with a lineup featuring what we believe to be the best contemporary films and original television series from Mexico, Latin America and the U.S. Cinelatino was launched in Mexico in 1993, and introduced into the U.S. in 1995.

Our programming strategy for Cinelatino is specifically intended to provide the audience with the broadest selection of the most popular and highest-quality films across all popular genres, from Mexico and all other Latin American countries that have significant populations in the U.S., including Puerto Rico, the Dominican Republic, Colombia and Venezuela. Consistent with its programming strategy, Cinelatino has licensed the rights to many of the highest grossing box office films in Mexico. Cinelatino has an expansive library of over 800 of the best Spanish-language titles from suppliers across the globe. Driven by the strength of its programming and distribution, Cinelatino is the #2-Nielsen rated Spanish-language cable television network in the U.S. overall based on coverage ratings. In July 2015, Cinelatino introduced advertising on its network. Additionally, leveraging its expansive content library, which includes theatrical films, made-for-television movies, series and other content acquired or licensed from third party suppliers, as well as its own original productions, Cinelatino licenses content to over-the-top services in the U.S. and Latin America.

Cinelatino has two feeds of its service, one that is distributed in the U.S. and a second that is distributed throughout Latin America and Canada. Cinelatino is distributed by all major U.S. cable, satellite and telecommunications operators on Hispanic Programming Packages and has over 4.6 million U.S. subscribers. Hispanic pay-TV subscribers in the U.S. are expected to grow, driven by the continued long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

Cinelatino is also distributed by many Latin American pay television distributors, generally on basic video packages, and has approximately 16.8 million subscribers in more than 15 countries throughout Latin America. Cinelatino is presently distributed to only 30% of all pay-TV subscribers throughout Latin America (excluding Brazil), representing a significant growth opportunity.

**Pasiones**

Pasiones, launched in August 2008, focuses on one of the most popular program genres among Hispanics, telenovelas. The network sets itself apart by showcasing telenovelas produced in Latin America, Turkey, South Korea, India and other countries (dubbed into Spanish), in contrast to competitor networks such as Univision Tlnovelas, which focus almost exclusively on Mexican telenovelas. This diverse programming strategy made Pasiones the #1 novela network in prime time in 2018. In owning both Pasiones and Cinelatino, we provide content in two of the most popular genres with Hispanics, telenovelas and movies.

Pasiones has two feeds of its service, one that is distributed in the U.S. and a second that is distributed throughout Latin America. Pasiones is distributed by most major U.S. cable, satellite and telecommunications operators on Hispanic Programming Packages and has approximately 4.4 million U.S. subscribers. Hispanic pay-TV subscribers in the U.S. are expected to grow, driven by the continued long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

Pasiones is also distributed by many Latin American pay television distributors, generally on basic video packages, and has approximately 16.0 million subscribers in more than 15 countries throughout Latin America. Pasiones is presently distributed to only approximately 28% of total pay-TV subscribers throughout Latin America (excluding Brazil), representing a significant growth opportunity.

**Centroamerica TV**

Centroamerica TV, launched in September 2004, is the leading network targeting the more than 6 million Central Americans living in the U.S. Central Americans are the third largest U.S. Hispanic population group, and represent the fastest growing segment of the U.S. Hispanic population, having grown 302% from 2000-2018. Centroamerica TV features news and entertainment programming from leading television broadcast networks in El Salvador, Honduras, Costa Rica, Guatemala, and Panama, as well as exclusive soccer programming from the top professional leagues in the region.

Centroamerica TV has approximately 4.3 million subscribers in the U.S. and is distributed on Hispanic Programming Packages. Hispanic pay-TV subscribers in the U.S. are expected to grow, driven by the long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

**Television Dominicana**

Television Dominicana, launched in November 2005, is the leading network targeting the more than 2.5 million Dominicans living in the U.S. Dominicans are the fourth largest U.S. Hispanic population group and have grown by 232% from 2000-2018. Television Dominicana features news and entertainment programming from leading content producers in the Dominican Republic.

Television Dominicana currently has approximately 2.3 million subscribers in the U.S. and is distributed on Hispanic Programming Packages. Hispanic pay-TV subscribers are expected to grow, driven by continued long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

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**Snap Media**

On November 26, 2018, we acquired a 75% interest in Snap Media. Snap Media is a distributor of content to broadcast and cable television networks and OTT and SVOD platforms in Latin America. Snap will be responsible for the distribution of content owned and/or controlled by our networks, as well as content to be produced by the production joint venture between Snap Media and MarVista.

**Joint Ventures/Investments**

On November 3, 2016, we formed a joint venture with Lionsgate, pursuant to which we own a 25% interest in Pantaya, a Spanish-language OTT movie service. The service launched in the U.S. on August 1, 2017. The investment is deemed a Variable Interest Entity ("VIE") that is accounted for under the equity method.

On November 30, 2016, we, in partnership with Colombian content producers, Radio Television Interamericana S.A., Compania de Medios de Informacion S.A.S. and NTC Nacional de Television y Comunicaciones S.A., were awarded a ten (10) year renewable television broadcast concession license for Canal 1 in Colombia. Canal 1 is one of only three national broadcast television networks in Colombia. The partnership began operating Canal 1 on May 1, 2017. Canal 1 is the #3-rated broadcast television network in Colombia. At December 31, 2018, we owned a 40% interest in the joint venture, which is deemed a VIE that is accounted for under the equity method.

On April 28, 2017, we acquired a 25.5% interest in REMEZCLA, digital media company targeting English speaking and bilingual U.S. Hispanic millennials through innovative content. The investment is deemed a VIE that is accounted for under the equity method.

For more information on Pantaya, Canal 1 and REMEZCLA, see Note 5, "Equity Method Investments" of Notes to Consolidated Financial Statements, included in this Annual Report.

**OUR COMPETITION**

We compete for the development and acquisition of programming, distribution of our Networks, selling of commercial time on our Networks, viewership of our Networks, and on-air and creative talent. Our Networks compete with other Spanish-language broadcast and cable television networks and digital media companies for the acquisition of programming, viewership, the sale of advertising and creative talent. Our ability to produce and acquire popular content impacts our viewership and the sale of advertising.

We also compete with both Spanish-language and English-language broadcast and cable television networks for distribution of our Networks and the fees paid by cable, satellite and telecommunication service providers. Our ability to retain and secure distribution agreements is necessary to maintain and grow affiliate revenue, and to attain viewership which drives advertising sales. Our contractual agreements with Distributors are renewed or renegotiated from time to time in the ordinary course of business. The launch of new networks and consolidation within the cable and satellite distribution industry may adversely affect our ability to obtain and maintain distribution of our Networks.

Certain technological advances, including the increased deployment of fiber optic cable, are expected to allow cable and telecommunication video service providers to continue to expand both their channel and broadband distribution capacities and to increase transmission speeds. In addition, the ability to deliver content via new methods and devices is expected to increase substantially. The impact of such added capacities is hard to predict, but the development of new channels of content distribution could lead to increased competition for viewers by facilitating the emergence of additional channels and mobile and internet platforms through which viewers could view programming that is similar to that offered by our Networks.

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WAPA competes with broadcast television networks and cable television networks in Puerto Rico for audience viewership, advertising sales, and programming. WAPA's main competitors are broadcast television stations owned by Univision and Telemundo, which rely heavily on their U.S. parents for programming, consisting primarily of telenovelas produced in Mexico, the U.S. and Latin America. There are a few other local broadcasters, but they tend not to be competitive due to weak programming and/or poor signal quality. In addition, while all major English-language U.S. broadcast networks have local affiliates, they are, for the most part, low power stations with nominal ratings. Cable channels are generally not competitive, as they tend to be U.S.-based, English-language channels with little relevance to the Spanish-speaking Puerto Rican audience, and pay television is much less widely penetrated in Puerto Rico than the U.S. WAPA has effectively customized its programming for the viewing preferences of the Puerto Rican market with more local entertainment and news programming than its competitors, as well as blockbuster Hollywood movies and hit U.S. television series (dubbed into Spanish). As a result, since the start of Nielsen audience measurement, WAPA has been the ratings leader for the past nine years. WAPA Deportes competes for viewership, advertising sales and programming with other channels offering similar sports programming in Puerto Rico. Competitors include U.S.-based cable networks, such as ESPN, TNT, and TBS, and certain satellite distributors who have acquired sports media rights for their owned channels. WAPA.TV, WAPA's mobile-optimized website, directly competes with other local news, weather and entertainment sites for traffic and advertising sales. To some extent, WAPA.TV also competes with search engines and social networks, such as Google and Facebook, for digital advertising revenue.

Many of our competitors may possess greater resources than us, and our financial resources may be relatively limited when contrasted with many of these competitors.

**INTELLECTUAL PROPERTY**

Our intellectual property assets principally include copyrights in television programming, websites and other content, trademarks in brands, names and logos, domain names and licenses of intellectual property rights of various kinds. The protection of our Networks' brands and content is of primary importance to our success. To protect our intellectual property assets, we rely upon a combination of copyright, trademark, unfair competition, trade secret and internet/domain name statutes, laws and contractual provisions. However, there can be no assurance of the degree to which these measures will be successful in any given case. Moreover, effective intellectual property protection may be either unavailable or limited in certain foreign territories. Policing unauthorized use of our products and services and related intellectual property is difficult and costly. We seek to limit unauthorized use of our intellectual property through a combination of approaches. However, the steps taken to prevent the infringement of our intellectual property by unauthorized third parties may not work.

Third parties may challenge the validity or scope of our intellectual property from time to time, and the success of any such challenges could result in the limitation or loss of intellectual property rights. Irrespective of their validity, such claims may result in substantial costs and diversion of resources which could have an adverse effect on our operations. In addition, piracy, which encompasses the theft of our signal, and unauthorized use of our content in the digital environment continues to present a threat to revenues from products and services based on intellectual property.

**INDUSTRY**

**U.S. Hispanic Market**

The U.S. Census Bureau estimated that 58.9 million Hispanics resided in the United States in 2017, representing an increase of more than 23 million people between 2000 and 2017. Hispanics represent the largest minority group in the U.S. at over 18% of the total U.S. population and accounted for over half of the total U.S. population growth between 2000 and 2017. This trend is

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expected to continue as the U.S. Hispanic population is projected to grow to 75 million by 2030, an increase of 27% from 2017. As a result of this growth, the U.S. Hispanic market represents the largest Hispanic economy in the world. In addition, the Hispanic population on average is significantly younger than the overall population. For example, the median age of U.S. Hispanics is 29, which is 11 years younger than the median age for non-Hispanic whites.

Claritas estimates that in 2018 about 66% of the U.S. Hispanic population was of Mexican origin, followed by Puerto Rican, the second largest Hispanic national group, at 10%. There are 6.1 million Puerto Ricans and an additional 5.9 million Hispanics from other Caribbean countries residing in the U.S., and together, Puerto Ricans and other Caribbean Hispanics represent 19% of the total U.S. Hispanic population. The Puerto Rican population in the U.S. grew 80% from 2000 to 2018, while the overall Caribbean Hispanic population grew 101% during the same time period, including the Dominican population which grew 232% from 2000-2018.

*Caribbean Hispanics (WAPA America and Television Dominicana target audience)*

| **Place of Origin** | **Population 2018** | **% of U.S. Hispanics** |
|---|---|---|
| Puerto Rico | 6,124,980 | 9.5% |
| Dominican Republic | 2,539,573 | 2.9% |
| Cuba | 1,894,553 | 3.9% |
| Colombia | 1,116,666 | 1.7% |
| Venezuela | 331,568 | 0.5% |
| **Total Caribbean Hispanics** | **12,007,340** | **18.6%** |

Source: 2018 Claritas

Central Americans are the third largest U.S. Hispanic regional population group in the U.S. (behind Mexicans and Caribbean Hispanics), and represent the fastest growing segment of the U.S. Hispanic population. There are over 6 million Central Americans residing in the U.S., an increase of 302% since 2000. Central Americans comprised approximately 10% of the U.S. Hispanic population in 2018, compared to approximately 4% in 2000.

*Central American Hispanics (Centroamerica TV target audience)*

| **Place of Origin** | **Population 2018** | **% of U.S. Hispanics** |
|---|---|---|
| El Salvador | 2,759,012 | 4.3% |
| Guatemala | 1,715,336 | 2.7% |
| Honduras | 775,897 | 1.2% |
| Nicaragua | 451,865 | 0.7% |
| Panama | 405,510 | 0.6% |
| Costa Rica | 263,782 | 0.4% |
| **Total Central American Hispanics** | **6,371,402** | **9.9%** |

Source: 2018 Claritas

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**Hispanic Television and Pay-TV Landscape**

Within the U.S. cable network industry, the U.S. Hispanic demographic is attractive for a number of reasons:

Growth in Hispanic TV households: U.S. Hispanic television households grew by 26% during the period from 2010 to 2019, from 12.9 million households to 16.2 million households, nearly seven times the overall U.S. television household growth of only 4%. The continued long-term growth of Hispanic television households creates a significant opportunity to reach an attractive audience at a time when overall household growth in the U.S. is more modest.

Growth in Hispanic pay-TV subscribers: Hispanic pay-TV subscribers are expected to continue to grow, driven not only by the rapid growth in Hispanic television households, but also by the increased penetration of pay-TV among Hispanics. Hispanic pay-TV subscribers increased 4% from 2010 to 2019, growing from 10.8 million to 11.2 million subscribers. This 4% growth in Hispanic pay-TV subscribers is impressive compared to the 12% decline in overall U.S. pay-TV subscribers during the same period.

**Television Viewing and Language Preferences**

Hispanics Enjoy Movies: In 2017, while Hispanics made up 18% of the U.S. population, they comprised 24% of the country's frequent moviegoers (i.e., those who attend movies at least once per month). In fact, the President of the National Association of Theater Owners described Hispanics as "the most valuable component of moviegoers." In 2017, Hispanics saw 4.5 movies per year, higher than any other ethnicity group.

Hispanics Prefer Television in Spanish: Spanish remains the most used language in the home by U.S. Hispanic adults, and this powerfully influences television viewing habits. According to Nielsen, 59% of Hispanics aged 18 and over speak Spanish as much as or more than English in their homes. Spanish-dominant or bilingual (Spanish/English Equal) homes comprise about 64% of U.S. Hispanic households, and these homes exhibit a strong preference to watch television in their native language. In 2018, Spanish-dominant households viewed 59% of television in Spanish and bilingual homes viewed about 36% of television in Spanish.

**Hispanic Advertising Market**

Persons living in Hispanic television households represent 18% of the total U.S. television household population and over 10% of the total U.S. buying power, but the aggregate media spend targeted at U.S. Hispanics significantly under-indexes both of these metrics. As a result, advertisers have been allocating a higher proportion of marketing dollars to the Hispanic market, but U.S. Hispanic cable advertising still under-indexes relative to its consumption.

Similar to the under-indexing of U.S. general market cable advertising relative to viewing share in the 1980's and 1990's, U.S. Hispanic cable advertising today significantly under-indexes relative to its share of the Spanish-language television audience. In 2018, U.S. Hispanic cable networks garnered only 6% of total U.S. Hispanic national television advertising, while accounting for a 31% share of total Spanish-language television viewing. Viewing of Spanish-language cable networks as a percentage of total Spanish-language television viewing has grown dramatically from 11% in 2008 to 31% in 2018.

**Latin American Market (excluding Brazil)**

Latin America remains an attractive region due to its large population, shared language, strong economic growth and growing discretionary spending. Pay-TV subscribers in Latin America grew by 32% from 2013 to 2018, and are projected to grow an additional 10 million from 57 million in 2018 to 67 million by 2022 representing projected growth of 18%. Pay-TV penetration of television households

has expanded from 46% in 2013 to 55% in 2018 and is projected to reach 60% by 2022. This growth is expected to be driven by a sizeable and growing population, as well as a strong macroeconomic backdrop and rising disposable income across geographies. In addition, investments in network infrastructure have improved service and performance, leading to increased penetration for pay-TV operators.

**Puerto Rico Overview**

The Commonwealth of Puerto Rico is a U.S. territory and has a U.S. dollar-based economy, U.S. rule of law and strong governmental ties to the United States. The broadcast television industry in Puerto Rico is regulated by the FCC, and the banking system is regulated under the U.S. system (Federal Deposit Insurance Corporation). As of January 2017 (the latest date for which data is available), Puerto Rico had a population of approximately 3.3 million, with an additional 6.1 million Puerto Ricans living in the mainland U.S. All Puerto Ricans are U.S. citizens.

*Economy*

The Puerto Rican economy has been in a recession since 2006, and its gross national product (GNP) has contracted in real terms every year between fiscal year 2007 and fiscal year 2016 (except for growth of 0.5% in fiscal year 2012). Puerto Rico has been burdened by limited economic activity, lower-than-estimated revenue collections, high government debt levels relative to the size of the economy and other fiscal challenges. On June 30, 2016, President Obama signed HR 5278 Bill, the "Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which, among other things, established a seven-member Federally-appointed oversight board (the "Oversight Board") with broad powers over the finances of the Commonwealth and its instrumentalities and provides to the Commonwealth, its public corporations and municipalities, broad-based restructuring authority, including through a bankruptcy-type process similar to that of Chapter 9 of the U.S. Bankruptcy Code. The Commonwealth's inability to access financing in the capital markets or from private lenders, has resulted in the Commonwealth and various public corporations defaulting on their public debt and entering into bankruptcy proceedings under PROMESA.

During the month of September 2017, Hurricanes Irma and Maria, two major hurricanes, caused extensive destruction in Puerto Rico. Hurricane Maria made landfall on September 20, 2017, and all of Puerto Rico was left without electrical power, and other basic infrastructure services (such as water, communications, ports and other transportation networks) were severely curtailed. Additionally, the hurricanes also accelerated the outmigration trends that Puerto Rico was experiencing, with increased numbers of residents moving to the mainland United States, either on a temporary or permanent basis. The hurricanes caused a significant disruption to the island's economic activity and GNP.

Puerto Rico continues in its efforts to rebuild its infrastructure and to otherwise recover from the impact of Hurricane Maria in 2017, aided in part by Federal Emergency Management Agency and other federal agencies. An indicator of such infrastructure recovery is seen in cement production which increased 7.4% and sales increased 3.5% during January 2019 as compared to January 2018. The extent and duration of such aid is inherently uncertain. In 2018, as part of the Title III proceedings under PROMESA, the Commonwealth of Puerto Rico submitted several draft fiscal plans to the Oversight Board, each of which purported to reflect the government's expected economic outlook for Puerto Rico over a five year period after taking into account, among other factors: (i) the negative impact of Hurricane Maria, (ii) mitigating impact of disaster relief assistance, (iii) changes to revenue and expense measures, and (iv) the impact of structural reforms. On October 23, 2018, the Oversight Board voted to certify the most recent Commonwealth fiscal plan, which reflects a $17.0 billion surplus over a six-year period assuming some levels of debt service. This fiscal plan has been approved and certified by the Financial Oversight and Management Board of Puerto Rico. According to the projections of this fiscal plan, Puerto Rico should receive $12B during the fiscal year 2019. Although some of the impact

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of the hurricanes, including its short-term impact on economic activity, may be offset by recovery and reconstruction activity and the influx of Federal emergency funds and private insurance proceeds, it is too early to know the total amount of Federal and private insurance money to be received and whether such transfers will significantly offset the negative economic, fiscal and demographic impact of the hurricanes. Although the current fiscal plan estimates a GNP growth of 7.8% and 5.5% in fiscal years 2019 and 2020, respectively, other economic estimates have these numbers at much lower levels between 2.8%-3.1% for 2019, and 3.4%-4.2% for 2020. This more conservative estimate assumes lower than expected reconstruction investment and external factors like US recession in 2019.

PROMESA is an important step towards reducing the level of uncertainty in Puerto Rico and provides a groundwork for an orderly debt restructuring process, however, ultimate outcomes of actions to address the challenging Puerto Rico economic environment are uncertain at this time. On February 4, 2019, the District Court entered an order approving the confirmation of the Plan of Adjustment for Puerto Rico Sales Tax Financing Corporation ("COFINA"), including the settlement agreement between the Commonwealth and COFINA. The effective date of the Plan was February 12, 2019. There can be no assurance that any past or new actions taken by any governmental or regulatory body for the purpose of stabilizing the economy or financial markets will achieve their intended effect.

*Puerto Rico Broadcast Television Market*

Puerto Rico has 1.3 million television households, comparable to that of a top 25 U.S. television market. Puerto Rico is the third largest U.S. Hispanic market behind Los Angeles and New York.

Puerto Rican television broadcasters capture the dominant share of viewership, which is unique relative to the U.S. The three primary broadcasters in Puerto Rico WAPA, Univision and Telemundo collectively garner approximately 73% of all television household viewership in primetime, distinguishing Puerto Rico from the U.S. television market, where the four major national broadcast networks (ABC, CBS, NBC and Fox) garner a collective primetime audience share of 18%. In fact, WAPA's primetime household rating in 2018 was four times higher than the most highly rated English-language U.S. broadcast network in the U.S., NBC, and higher than the combined ratings of CBS, NBC, ABC, FOX and the CW.

**GOVERNMENT REGULATION**

Our broadcast and cable network operations are subject to regulation by governmental authorities in the United States, Puerto Rico and other countries where they operate. The rules, regulations, policies and procedures affecting our Business are constantly subject to change. This section contains a summary of certain government regulations that may affect our operations. This information is summary in nature and does not purport to describe all present and proposed laws and regulations affecting our Business.

*Introduction*

Our Networks are subject to regulation by the FCC under the Communications Act of 1934, as amended ("Communications Act"). Under authority of the Communications Act, the FCC, among other things, assigns frequency bands for broadcast stations, including the WAPA stations, and other uses; determines the location, frequency and operating power of stations; grants permits and licenses to construct and operate television stations on particular frequencies; issues, revokes, modifies and renews television broadcast station licenses; regulates equipment used by stations; determines whether to approve changes in ownership or control of station licenses; and adopts and implements regulations and policies which directly or indirectly affect the ownership, operations and profitability of broadcasting stations.

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The FCC has also adopted various rules that regulate the content of programming broadcast by television stations, including the WAPA station, and carried by cable networks, including our Cable Networks. These rules regulate, among other things, children's programming, sponsorship identification disclosures, closed captioning of certain television programming, and obscene, indecent and profane content. Additionally, the FCC's rules require broadcast stations to implement equal employment opportunity outreach programs and maintain records relating to these programs and make filings with the FCC evidencing such efforts. The FCC could also adopt other regulations that affect cable networks, such as the requirement that the cable programming services be on an "á la carte" basis, which could affect their business operations.

The following is a brief summary of certain provisions of the Communications Act, and specific FCC rules and policies and certain other statutes and regulations. The summaries are not intended to describe all present and proposed statutes and FCC rules and regulations that impact broadcast television and cable network operations. Failure to observe the provisions of the Communications Act and the FCC's rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of "short-term" (less than the maximum term) broadcast license renewals or, for particularly egregious violations, the denial of a broadcast license renewal application, the revocation of a broadcast license, or the withholding of approval for acquisition of additional broadcast properties.

*FCC Licenses and Renewal*

The Communications Act permits the operation of a broadcast station only in accordance with a license issued by the FCC upon a finding that the grant of a license would serve the public interest, convenience and necessity. The FCC grants broadcast licenses for specified periods of time and, upon application, may renew the licenses for additional terms (ordinarily for the full term of eight years). Generally, the FCC renews a broadcast license upon a finding that (i) the broadcast station has served the public interest, convenience and necessity; (ii) there have been no serious violations by the licensee of the Communications Act or the FCC's rules; and (iii) there have been no other violations by the licensee of the Communications Act or other FCC rules which, taken together, indicate a pattern of abuse. After considering these factors, the FCC may renew a broadcast station's license, either with conditions or without, or it may designate the renewal application for hearing. In 2013, the FCC renewed our television licenses for full eight year terms expiring in 2021.

*Media Ownership Restrictions and FCC Proceedings*

The FCC's broadcast ownership rules affect the number, type and location of broadcast and newspaper properties that we are allowed to hold or acquire. The FCC is required by statute to review all of its broadcast ownership rules every four years to determine if such rules remain necessary in the public interest. In 2017, the FCC relaxed certain ownership rules. The revised rules limit the common ownership, directly or by way of attribution, operation or control of television stations serving the same area. The rules also limit the aggregate national audience reach of television stations under common ownership, directly or by way of attribution. The FCC's rules also define the types of positions and interests that are considered attributable for purposes of the ownership limits. In general, officers, directors and stockholders holding 5% or more of the voting interests in Hemisphere are deemed to have attributable interests. The FCC's ownership limits therefore apply to our principals and certain investors in our Company. Because we are controlled by a single stockholder holding a majority of the voting power of our capital stock, the FCC's current rules do not treat other five percent or greater voting stockholders as attributable, and those ownership interests are not required to be reported to the FCC.

In December 2017, the FCC opened a notice of proposed rulemaking to review the national television audience reach cap and the 50% discount that is given to UHF stations in determining compliance with the national audience cap. That proposed rulemaking remains pending as of the date of this Annual Report.

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*Local Television Ownership Rule*

Under the local television ownership rule, one party may own, operate, or control up to two television stations in a market, so long as at least one of the stations is not one of the top-four-rated stations (based on audience share) in the television market. However, the FCC will allow case-by-case review of a transaction that involves two top-four stations where strict application of the rule would be unwarranted. The rule also permits the ownership, operation or control of two television stations in a market as long as the stations' Noise Limited Service contours do not overlap. The local television ownership rule, including the provision allowing for case-by-case waivers for acquisitions of two top- four stations, is subject to an appeal brought by several public interest organizations with the Court of Appeals for the Third Circuit, the same court that has considered challenges to prior ownership rule changes adopted by the FCC. Broadcast stations designated by the FCC as "satellite" stations are exempt from the local television ownership rule. WNJX-TV and WTIN-TV have been designated by the FCC as "satellite" stations of WAPA-TV, a division of WAPA. The FCC may also waive its local television ownership rule to permit ownership, operation or control of two television stations in a market that would not otherwise be permissible if one of the stations is in involuntary bankruptcy, is a "failed" station, or is "failing" (i.e., stations with negative cash flow and less than a four share all day audience rating). Under the local television ownership rule, the licensee of a television station that provides more than 15% of another in-market station's weekly programming or advertising will be deemed to have an attributable interest in the other station. In December 2018, the FCC released a Notice of Proposed Rulemaking to launch its statutorily mandated quadrennial review of multiple ownership rules, including the local television ownership rule, to determine whether the rules remain necessary in the public interest.

*Attribution of Ownership*

Pursuant to FCC rules, the following relationships and interests are generally considered attributable for purposes of broadcast ownership restrictions: (i) all officers and directors of a corporate licensee and its direct or indirect parent(s); (ii) voting stock interests of at least five percent; (iii) voting stock interests of at least 20 percent, if the holder is a passive institutional investor (such as an investment company, bank, or insurance company); (iv) any equity interest in a limited partnership or limited liability company, unless properly "insulated" from management activities; (v) equity and/or debt interests that in the aggregate exceed 33 percent of a licensee's total assets, if the interest holder supplies more than 15 percent of the station's total weekly programming or is a same-market broadcast company or daily newspaper publisher; (vi) time brokerage of a broadcast station by a same-market broadcast company; and (vii) same-market radio joint sales agreements. Because we are controlled by a single stockholder holding a majority of the voting power of our capital stock, the FCC's current rules do not treat other five percent or greater voting stockholders as attributable, and those ownership interests are not required to be reported to the FCC. Pending before the FCC is a proposal to eliminate the single majority shareholder exception. The FCC is also considering a proposal to require the disclosure in biennial ownership reports of information about five percent or greater voting shareholders, even if such interests are not attributable under the FCC's ownership rules.

Management services agreements and other types of shared services arrangements between same-market stations that do not include attributable time brokerage components generally are not deemed attributable under the FCC's current ownership rules. However, the FCC now requires that television stations make any shared services agreements available in a station's public inspection file.

*Commission Approval of Transfer of Control of FCC Licenses*

The FCC's prior approval is required for the transfer of control or assignment of FCC licenses. We are currently controlled by Gato Investments LP ("Gato"), which owns a majority of our Class B common Stock, par value $0.0001 per share ("Class B common stock"). The FCC's prior consent would

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be required prior to any transaction that would result in a change in control of Hemisphere or Gato. An application for consent to a transfer of control or assignment of licenses would be subject to a formal public notice and comment period during which petitions to deny the applications would be accepted by the FCC.

A person or entity requesting the FCC's consent to acquire or obtain control of our television station licenses must demonstrate that the acquisition complies with the FCC's ownership rules or that a waiver of the rules is in the public interest. As discussed above, we own two television stations, WNJX-TV and WTIN-TV, which are operated as "satellite" stations of WAPA-TV. Stations granted satellite status are exempt from the FCC's local television ownership rule. Thus, this status permits the common ownership of the three WAPA broadcast stations that would not otherwise be permitted. WNJX-TV and WTIN-TV were first accorded satellite status in 2001 due to the unique circumstances of the Puerto Rico market, including its topography and economic conditions, and the FCC has renewed this grant in subsequent transactions. We anticipate the FCC would continue to grant satellite status to WNJX-TV and WTIN-TV in future change-in-control transactions.

*Alien Ownership Restrictions*

Under the Communications Act, a broadcast license may not be granted to or held by any corporation that has more than 20% of its capital stock owned or voted by non-U.S. citizens or entities, whom the FCC refers to as "aliens," or their representatives, by foreign governments or their representatives, or by non-U.S. corporations.

Furthermore, the Communications Act provides that no FCC broadcast license may be granted to or held by any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds the public interest will be served by the refusal or revocation of such license. These restrictions apply in modified form to other forms of business organizations, including partnerships and limited liability companies. The FCC has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such entity. In the past, the FCC has made such an affirmative finding with respect to broadcast licenses only in highly limited circumstances. In 2013, however, the FCC issued a declaratory ruling that notwithstanding its past practices, it will consider on a case-by-case basis requests for approval of acquisitions by aliens of in excess of 25% of the capital stock of the parent of a broadcast licensee. In 2016, the FCC adopted rules to simplify the process for submitting a declaratory ruling and modifying the procedures for the foreign ownership approval process for broadcast station licensees. In acting upon a request for declaratory ruling, the FCC will coordinate with Executive Branch agencies on national security, law enforcement, foreign policy and trade policy issues. The new rules also specify how public companies should monitor foreign ownership compliance and provide for remedial provisions in the event a public company determines that it has exceeded its foreign ownership limits.

On January 18, 2017, the FCC granted our request to allow foreign investors or aliens to own up to 49.99% of our capital stock and hold 49.99% of the voting power. However, we are required to obtain specific approval from the FCC before any alien acquires more than 5% of our capital stock or more than 5% voting rights, other than certain foreign investors that the FCC approved in the declaratory ruling. We are also required to take remedial actions with the FCC if we determine that an unapproved alien has acquired more than 5% of our capital stock or voting rights. In September 2018, the FCC approved a modification of the original request to permit additional entities to own up to 49.99 percent of our capital stock and up to 49.99 percent of our voting power.

To the extent necessary to comply with the Communications Act, FCC rules and policies, and the declaratory ruling, our board of directors may (i) prohibit the ownership, voting or transfer of any

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portion of our outstanding capital stock to the extent the ownership, voting or transfer of such portion would cause us to violate or would otherwise result in violation of any provision of the Communications Act, FCC rules and policies, or the FCC's declaratory ruling; (ii) convert shares of our Class B common stock into shares of our Class A common stock to the extent necessary to bring us into compliance with the Communications Act, FCC rules and policies, or the FCC's declaratory ruling; and (iii) redeem capital stock to the extent necessary to bring us into compliance with the Communications Act, FCC rules and policies, or the FCC's declaratory ruling or to prevent the loss or impairment of any of our FCC licenses.

*Digital Television*

As of June 12, 2009, all full-power broadcast television stations were required to cease broadcasting analog programming and convert to all digital broadcasts. Digital broadcasting allows stations to offer digital channels for a wide variety of services such as high definition video programming, multiple channels of standard definition video programming, such as WAPA Deportes, data, and other types of communications. Each station is required to provide at least one free over-the-air video program signal.

To the extent a station has "excess" digital capacity (i.e., digital capacity not used to transmit free, over-the-air video programming), it may elect to use that capacity in any manner consistent with FCC technical requirements, including for data transmission, interactive or subscription video services, or paging and information services. If a station uses its digital capacity to provide any such "ancillary or supplementary" services on a subscription or otherwise "feeable" basis, it must pay the FCC an annual fee equal to 5% of the gross revenues realized from such services.

In 2017, the FCC adopted rules authorizing the deployment of the Next Generation broadcast television transmission standard, also called ATSC 3.0. ATSC 3.0 is an Internet Protocol-based broadcast transmission platform that merges the capabilities of over-the-air broadcasting with the broadband viewing and information delivery methods of the Internet, using the same 6 MHz channels presently allocated for digital television service. Stations are not obligated to use ATSC 3.0; use of the new standard is voluntary. We cannot predict what impact the new standard will have on our Business.

*MVPD Retransmission of Local Television Signals*

A number of provisions of the Communications Act and FCC rules govern aspects of the relationship between broadcast television stations and distributors of multiple channels of video programming such as cable, satellite and telecommunications companies (referred to as "MVPDs"). The rules generally provide certain protections for local broadcast stations, for which MVPDs are an important means of distribution and a provider of competing program channels.

To ensure that every local television station can be received in its local market without requiring a cable subscriber to switch between cable and off-air signals, the FCC allows every full-power television broadcast station to require that all local cable systems and direct broadcast satellite transmit that station's primary digital channel to their subscribers within the station's market (the so-called "must-carry" rule). Alternatively, a station may elect to forego its must-carry rights and seek a negotiated agreement to establish the terms of its carriage by a local MVPD referred to as "retransmission consent." A station electing retransmission consent assumes the risk that it will not be able to strike a deal with the MVPD and will not be carried. A station has the opportunity to elect must-carry or retransmission consent every three years. Elections were made in October 2017 for the 2018-2020 three-year period. WAPA elected retransmission consent and has entered into retransmission consent contracts with all MVPD systems serving Puerto Rico.

MVPDs are not required to carry any programming streams other than a station's primary video programming channel. Consequently, WAPA's multicast channel WAPA Deportes is not entitled to

mandatory carriage under the FCC's must-carry rules. However, we are free to negotiate with MVPDs for the carriage of additional programming streams.

In 2014, the FCC adopted rules prohibiting a television broadcast station that is ranked among the top four stations to negotiate retransmission consent jointly with another station, if the stations are not commonly owned and serve the same geographic market. Congress tightened this restriction to prohibit joint negotiation with any television station in the same market unless the stations are under common *de jure* control as part of the STELA Reauthorization Act of 2014. In December 2014, the FCC issued a NPRM requesting comment on whether the definition of MVPD should be expanded to include providers that make multiple linear streams of video programming available for purchase, regardless of the technology used to distribute the programming (e.g. entities providing video programming to subscribers through internet connections). In September 2015, the FCC issued a NPRM to review one of the standards used to evaluate whether broadcast stations and MVPDs are negotiating for retransmission consent in good faith, referred to as the "totality of the circumstances test." These proceedings remain pending, and we cannot predict what impact, if any, they will have on our negotiations with video programming distributors.

*Repurposing of Broadcast Spectrum for Other Uses*

Federal legislation was enacted in February 2012 that, among other things, authorized the FCC to conduct voluntary "incentive auctions" in order to reallocate certain spectrum currently occupied by television broadcast stations to mobile wireless broadband services, to "repack" television stations into a smaller portion of the existing television spectrum band, and to require television stations that did not relinquish spectrum in the auction to modify their transmission facilities, subject to reimbursement for reasonable relocation costs up to an industry-wide total of $1.75 billion.

The FCC adopted rules concerning the incentive auction and the repacking of the television band and conducted the auction. Under the auction rules implemented by the FCC, television stations were given an opportunity to offer spectrum for sale to the government in a "reverse" auction whereafter wireless providers were permitted to bid to acquire spectrum from the government in a related "forward" auction. We filed an application to participate in the reverse auction. However, because the price to sell our spectrum fell below the value we ascribe to it, we did not sell any of our spectrum in the auction. The incentive auction concluded in the first half of 2017. The FCC is now in the process of "repacking" the remaining television broadcast spectrum, which requires that certain television stations that did not relinquish spectrum in the reverse auction modify their transmission facilities, including requiring such stations to operate on other channel designations. The FCC will reimburse stations for reasonable relocation costs. The original reimbursement limit across all stations was $1.75 billion. In March 2018, Congress authorized an additional $1 billion to be used for reimbursements related to repacking. When repacking, the FCC will make reasonable efforts to preserve a station's coverage area and population served. Stations WNJX-TV and WTIN-TV have been reassigned new channels as a result of the incentive auction. WNJX-TV and WTIN-TV transitioned to their new channels on August 1, 2018 and are currently operating with temporary facilities while construction of their permanent facilities is completed.

The outcome of the repacking of broadcast television spectrum and the impact of such on WAPA's business, cannot be predicted. Nevertheless, we do not believe that the auction will have a material negative impact on our Business, because with post-auction channel assignments our stations will remain in the more desirable UHF band; our three television stations have overlapping coverage areas, so it is unlikely that we will lose service to a significant portion of the households that we serve. If the FCC is unable to reimburse all of our repacking expenses, the amount of the shortfall is unlikely to be material to our Business as a whole.

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*EEO Rules*

The FCC's Equal Employment Opportunity ("EEO") rules impose job information dissemination, recruitment, documentation and reporting requirements on broadcast television stations. Broadcasters are also subject to random audits to ensure compliance with the FCC's EEO rules and may be sanctioned for noncompliance.

*Recordkeeping*

The FCC rules require broadcast television stations to maintain various records regarding operations, including equipment performance records and a log of the station's operating parameters. Television stations must also maintain a public inspection file, which is hosted on an FCC-maintained website. This file must contain various records, including the station license, FCC applications, contour maps, ownership reports, political broadcasting records, EEO public file reports, a copy of the manual "The Public and Broadcasting," material regarding FCC investigations or complaints, issues/programs lists, children's television programming reports, records concerning compliance with commercial limits in children's programming, time brokerage agreements and joint sales agreements, shared services agreements and statements of must-carry/retransmission elections.

*Programming and Operations*

Rules and policies of the FCC and other federal agencies regulate certain programming practices and other areas affecting the business or operations of broadcast stations, including WAPA, and cable networks, including WAPA America and Cinelatino.

*Obscenity, Indecency and Profanity.* Federal statutes prohibit the broadcast or transmission of obscene material at any time by broadcast television stations, including the WAPA station, or on cable networks, including WAPA America and Cinelatino. The FCC's rules also prohibit television stations, including the WAPA station, from broadcasting indecent or profane material between the hours of 6:00 a.m. and 10:00 p.m. In recent years, the FCC has intensified its enforcement activities with respect to programming it considers indecent and has issued numerous fines to licensees found to have violated the indecency rules.

In 2018, the FCC implemented increased forfeiture amounts for indecency violations that were enacted by Congress. The maximum permitted fine for an indecency violation is $407,270 per incident and $3,759,410 for any continuing violation arising from a single act or failure to act.

Because the FCC may investigate indecency complaints on an *ex parte* basis, a licensee may not have knowledge of an indecency complaint unless and until the complaint results in the issuance of a formal FCC letter of inquiry or notice of apparent liability for forfeiture. In July 2010, the U.S. Court of Appeals for the Second Circuit issued a decision finding that the FCC's indecency standard was too vague for broadcasters to interpret and therefore inconsistent with the First Amendment. In June 2011, the Supreme Court granted certiorari in this case. In June 2012, the Supreme Court issued a decision which held that the FCC could not fine ABC and FOX (two television networks that were fined for airing allegedly indecent material) for the specific broadcasts at issue because the FCC had not provided them with sufficient notice of its intent to issue fines for the use of fleeting expletives or momentary nudity. However, the Supreme Court did not make any substantive ruling regarding the FCC's current indecency policies. In April 2013, the FCC requested comments on its indecency policy, including whether to ban the use of fleeting expletives or whether it should only impose fines from broadcasts that involve repeated and deliberate use of expletives. The FCC has advised that it will continue to pursue enforcement actions in egregious cases while it conducts its review of its indecency policy generally.

*Children's Programming.* Federal statutes and FCC rules require broadcast television stations, including the WAPA station, to broadcast three hours per week of educational and informational programming ("E/I programming") designed for children 16 years of age and younger. FCC rules also require television stations to air E/I programming on each additional digital multicast program stream broadcast, with the requirement increasing in proportion to the additional hours of free programming offered on multicast channels.

Federal statutes and FCC rules also limit the amount and content of commercial matter that may be included in programming primarily produced and carried for children 12 years and younger by broadcast television stations and cable networks, including WAPA America and Cinelatino. The FCC's rules also limit the display, during children's programming on broadcast stations and cable networks, of Internet addresses of websites that contain or link to commercial material or that use program characters to sell products. In July 2018, the FCC released a NPRM seeking comment on revisions to the children's television programming rules to modify outdated requirements and to give broadcasters greater flexibility in serving the educational and informational needs of children. The NPRM remains pending and it cannot be predicted what modifications, if any, will result from it.

Some U.S. policymakers have sought limitations on food and beverage marketing in media popular with children and teens. In April 2011, the Interagency Working Group on Food Marketed to Children, which is comprised of the Federal Trade Commission, the Centers for Disease Control and Prevention, the Food and Drug Administration and the U.S. Department of Agriculture, jointly requested comment on proposed nutritional restrictions for food and beverage marketing directed to children and teens aged 17 years and under. Although the proposed guidelines are nominally voluntary, if these or other similar guidelines are implemented by food and beverage marketers, they could have a negative impact on our Networks advertising revenues.

*Commercial Loudness.* The 2010 Commercial Advertisement Loudness Mitigation Act ("CALM Act") and the FCC rules implementing the CALM Act, require television stations, cable television operators, satellite television providers, and other pay television providers to limit the average volume of commercials, including promotional announcements, to the same average volume as the programming it accompanies. The FCC rules do not specifically require video programming providers, such as WAPA America or Cinelatino, to comply with the rules regarding the loudness of commercials. However, video programming distributors may request or require by contract that programming providers certify compliance with those rules for commercials embedded in programming.

*Closed Captioning.* FCC rules require the majority of programming broadcast by television stations and carried on cable networks to contain closed captions. In January 2012, the FCC adopted rules to require that television programming broadcast by television stations, including the WAPA station, or transmitted by cable, including on WAPA America or Cinelatino, with captioning include captioning if subsequently made available online, for example, by streaming on WAPA.TV. Clips of programming carried on television are required to be captioned if subsequently distributed over the internet. Additionally, beginning in March 2015, new FCC rules became effective that require programming captions to adhere to more stringent quality standards. In 2016, rules became effective requiring certain clips of programming made available online to be captioned if the underlying programming aired on television with captions.

*Sponsorship Identification.* Both the Communications Act and the FCC's rules generally require that, when payment or other consideration has been received or promised to a broadcast television station for the airing of program material, the station must disclose that fact and identify who paid or promised to provide the consideration at the time of broadcast. Cable systems are subject to the same requirement when the system is originating programming, also known as cablecasting. In June 2008, the FCC sought comments on whether it should adopt additional regulations with respect to sponsorship identification requirements on cable programmers. That proceeding remains pending.

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*Program Access Restrictions*

Under the Communications Act, vertically integrated cable programmers are generally prohibited from offering different prices, terms, or conditions to competing multichannel video programming distributors unless the differential is justified by certain permissible factors set forth in the FCC's regulations. The FCC's "program access" rules previously limited the ability of a vertically integrated cable programmer to enter into exclusive distribution arrangements with cable television operators. However, in 2012, the FCC declined to extend the exclusive contract prohibition section of the program access rules beyond its October 5, 2012 sunset date. A cable programmer is considered to be vertically integrated if it owns or is owned by a cable television operator, in whole or in part, under the FCC's program access attribution rules. Cable television operators for this purpose may include telephone companies that provide video programming directly to subscribers. Because certain of our directors are also directors of cable companies, we are considered to be a vertically integrated cable programmer and are subject to the program access rules.

*Regulation of the Internet*

Internet services, including WAPA.TV, CINELATINO.COM, TVPASIONES.COM, CENTROAMERICATV.TV, TELEVISIONDOMINICANA.TV and SNAPTV.TV, are subject to regulation in the U.S. relating to the privacy and security of personally identifiable user information and acquisition of personal information from children under 13, including the federal Child Online Privacy Protection Act (COPPA) and the federal Controlling the Assault of Non-Solicited Pornography and Marketing Act (CAN-SPAM). In addition, a majority of states have enacted laws that impose data security and security breach obligations. Additional federal, state, territorial laws and regulations may be adopted with respect to the Internet or other online services, covering such issues as user privacy, child safety, data security, advertising, pricing, content, copyrights and trademarks, access by persons with disabilities, distribution, taxation and characteristics and quality of products and services.

*Other Regulations*

In addition to the regulations applicable to the broadcast, cable television and Internet industries in general, we are also subject to other federal, state, territorial, and local regulations, including, without limitation, regulations promulgated by federal, state, and territorial environmental, health and labor agencies. Cinelatino is also subject to laws and regulations that may be adopted or promulgated by the governments of other jurisdictions in which it operates.

**AVAILABLE INFORMATION**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are made available free of charge on or through our website at *www.hemispheretv.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"). The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the Commission.

You may read and copy any materials we file with the Commission at the Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website that contains our reports, proxy statements and other information at *www.sec.gov*. In addition, copies of our Corporate Governance Guidelines, Audit Committee Charter and Code of Business Conduct and Ethics, are available at our website at *www.hemispheretv.com* under "Investor Relations  Corporate Governance." Copies will also be provided to any Hemisphere stockholder upon

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written request to Investor Relations, Hemisphere Media Group, Inc. at 4000 Ponce de Leon Blvd., Suite 650, Coral Gables, FL, 33146, or via electronic mail at *ir@hemispheretv.com,* or by contacting Investor Relations by telephone at (212) 486-9500.

**Item 1A. Risk Factors.**

The following risk factors and the forward-looking statements disclaimer elsewhere herein should be read carefully in connection with evaluating our Business and our subsidiaries. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Many of the risk factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating our Business and our subsidiaries and the joint ventures and investments they enter into. These risk factors may be amended, supplemented or superseded from time to time in future filings and reports that we file with the Commission in the future.

**Risk Factors Related to our Business**

***Service providers could discontinue or refrain from carrying our Networks, decide not to renew their distribution agreements or renew on less favorable terms, which could substantially reduce the number of viewers and harm our Business and operating results.***

Consolidation among cable and satellite operators has given the largest operators considerable leverage in their relationships with programmers, including our Networks. Some of our largest Distributors are combining and have gained, or may gain, market power, which could affect our ability to maximize the value of our content through those platforms. In addition, many of the countries and territories in which we distribute our Networks also have a small number of dominant Distributors. The success of each of our Networks is dependent, in part, on our ability to enter into new carriage agreements and maintain or renew existing agreements or arrangements with Distributors. Although our Networks currently have arrangements or agreements with, and are being carried by, many of the largest Distributors, having such a relationship or agreement with a Distributor does not always ensure that the Distributors will continue to carry our Networks. Additionally, under our Cable Networks' current contracts and arrangements, we typically offer Distributors the right to transmit the programming services comprising our Cable Networks to their subscribers, but not all such contracts or arrangements require that the programming services comprising our Cable Networks be offered to all subscribers of, or any specific tiers of, or to a specific minimum number of subscribers of a Distributor. Also, WAPA is dependent on its retransmission consent agreements that provide for per subscriber fees with annual rate escalators. No assurances can be provided that WAPA will be able to renegotiate all such agreements on favorable terms, on a timely basis, or at all. A failure to secure a renewal of our Networks' agreements, or a renewal on less favorable terms may result in a reduction in our Business's affiliate revenues and advertising revenues, and may have a material adverse effect on our results of operations and financial position.

***The success of our Business is dependent upon advertising revenue, which is seasonal and cyclical, and will also fluctuate as a result of a number of other factors, some of which are beyond our control.***

The success of our Business is dependent upon our advertising revenues. Our Networks' ability to sell advertising time and space depends on, among other things:

- economic conditions in the markets in which our Networks operate;
- the popularity of the programming offered by our Networks;
- changes in the population demographics in the markets in which our Networks operate;

- advertising price fluctuations, which can be affected by the popularity of programming, the availability of programming, and the relative supply of and demand for commercial advertising;
- our competitors' activities, including increased competition from other advertising-based mediums, particularly MVPD operators, digital platforms, and the internet;
- decisions by advertisers to withdraw or delay planned advertising expenditures for any reason;
- labor disputes or other disruptions at major advertisers;
- changes in audience ratings, including Nielsen's ability to provide ratings; and
- other factors beyond our control.

Audience ratings may be impacted by a number of factors outside of our control, including a decline in viewership, changes in ratings technology or methodology or changes in household sampling. For example, as a result of the impact of Hurricanes Irma and Maria, Nielsen suspended reporting of ratings data in Puerto Rico in September 2017 through May 1, 2018. Any decline in audience ratings could cause revenue to decline, adversely impacting our Business and our operating results. Our advertising revenue and results are also subject to seasonal and cyclical fluctuations that we expect to continue. Seasonal fluctuations typically result in higher operating income in the fourth quarter than in the first, second, and third quarters of each year. This seasonality is primarily attributable to advertisers' increased expenditures in anticipation of the holiday season spending. In addition, we typically experience an increase in revenue every four years as a result of advertising sales in respect of local government elections in Puerto Rico. The next political year will be 2020. As a result of the seasonality and cyclicality of our revenue, and the historically significant increase in our revenue during election years, investors are cautioned that it has been, and is expected to remain, difficult to engage in period-over-period comparisons of our revenue and results of operations.

***If our Networks' viewership declines for any reason, or our audience ratings decline for any reason or our Networks fail to develop and distribute popular programs, our advertising and subscriber fee revenues could decrease.***

Our Networks' viewership and audience ratings, as applicable, are critical factors affecting both (i) the advertising revenue that we receive, and (ii) the extent of affiliate revenue we receive, as applicable, under agreements with our Distributors. Our ratings are dependent, in part, on our ability to consistently create and acquire programming that meets the changing preferences of viewers in general and viewers in our Networks' target demographic category.

Our Networks' viewership is also affected by the quality and acceptance of competing programs and other content offered by other networks, the availability of alternative forms of entertainment and leisure time activities, including general economic conditions, piracy, digital and on-demand distribution and growing competition for consumer discretionary spending. Audience ratings may be impacted by a number of factors outside of our control, including a decline in viewership, changes in ratings technology or methodology or changes in household sampling. Any decline in our Networks' viewership or audience ratings could cause advertising revenue to decline, subscription revenues to fall, and adversely impact our Business and operating results.

***Our Networks may not be able to grow their subscribers and/or affiliate revenue, or such subscribers and/or revenues may decline and, as a result, our revenues and profitability may not increase and could decrease.***

The growth of our Networks' subscriber base depends upon many factors, such as overall growth in cable, satellite and telco subscribers, the popularity of our Networks' programming, our ability to negotiate new carriage agreements, or amendments to, or renewals of, current carriage agreements, maintenance of existing distribution, and the success of our marketing efforts in driving consumer

demand for their content, as well as other factors that are beyond our control, including temporary and permanent migration shifts in Puerto Rico, particularly following Hurricane Maria.

A major component of our financial growth strategy is based on our ability to increase our Cable Networks' subscriber base. If our Cable Networks' programming services are required by the FCC to be offered on an "à la carte" basis, our Cable Networks could experience higher costs, reduced distribution of our program service, perhaps significantly, and lose viewers. There can be no assurance that we will be able to maintain or increase our Cable Networks' subscriber base on cable, satellite and telco 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 or increase our Cable Networks' 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 our Networks are not able to predict with any accuracy when such increases in our subscriber bases may occur, if at all, or if we can maintain or increase our current affiliate revenues, as applicable. If our Networks are unable to grow our subscriber bases or if we reduce our affiliate revenues, as applicable, our revenues may not increase and could decrease.

***Demand for our programming and our Business, financial condition and results of operations are affected by changes that impact Hispanic living in the United States.***

We believe one of our growth drivers will result from projected increases in the U.S. Hispanic population and projected increases in their buying power. Factors that impact the U.S. Hispanic population, including a slowdown in immigration into the U.S. in the future, the impact of federal and state immigration legislation and policies on both the U.S. Hispanic population and persons emigrating from Latin America could affect the growth of the U.S. Hispanic population and, as a result, the demand for our programming. Immigration reform has been a continued area of focus for the current U.S. presidential administration. In 2017, a series of executive orders temporarily banning travel to the U.S. from several countries in the Middle East and Africa were signed into order. Additionally in 2017, the Department of Homeland Security issued several guidance memos that expand the federal government's ability to empower state and local law enforcement agencies to perform the functions of immigration officers and provide federal immigration agents wide latitude to arrest, detain and deport undocumented immigrants and legal immigrants with criminal records, which may disproportionally affect immigrants from Latin America. In 2018, immigration reform continued to attract significant attention in the public arena and the U.S. Congress. Although the details and timing of potential changes to immigration law are difficult to predict, restrictions on travel and eligibility for U.S. visa programs may lead to a slowdown of projected immigration levels in the U.S. Hispanic population. If the U.S. Hispanic population grows more slowly than anticipated, the projected buying power of the U.S. Hispanic population may not grow as anticipated. In addition, economic conditions, such as unemployment, that disproportionately impact the U.S. Hispanic population could slow the growth of, or reduce, the projected buying power of U.S. Hispanics. If the U.S. Hispanic population or its buying power grows more slowly than anticipated, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, in the U.S. we exclusively target our Hispanic audience through Spanish-language programming. As U.S. Hispanics become bilingual or English-dominant, demand for our Spanish-language programming could be adversely impacted by competing English-language programming, including programming primarily in English-language targeting the bilingual or English-dominant U.S. Hispanic population. In addition, a shift in policy towards encouraging English-language fluency among U.S. Hispanic immigrants could also impact demand for Spanish-language programming. If we are unable to create more programming and networks targeted to this audience, we may lose audience share to competing English-language or bilingual programming which could lead to lower ratings and

consequently, lower advertising revenues, which could have a material adverse effect on our business, financial condition and results of operations.

***The television markets in which our Networks 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.***

Our Networks compete with other television channels for the distribution of their programming, development and acquisition of content, audience viewership and advertising sales. With respect to audiences, television stations compete primarily based on program popularity. We cannot provide any assurances as to the acceptability by audiences of any of the programs our Networks broadcast. Further, because our Networks compete for the rights to produce or license certain programming, we cannot provide any assurances that we will be able to produce or obtain any desired programming at costs that we believe are reasonable. Our inability or failure to broadcast popular programs on our Networks, or otherwise maintain viewership for any reason, including as a result of significant increases in programming alternatives and the failure to compete with new technological innovations could result in a lack of advertisers, or a reduction in the amount advertisers are willing to pay us to advertise, which could have a material adverse effect on our Business, financial condition, and results of operations.

Our Networks compete with other Spanish-language broadcast and cable television networks, and digital media companies for the acquisition of programming, viewership, the sale of advertising, and creative talent. Our Networks also compete for the development and acquisition of programming, selling of commercial time on our Networks and on-air and creative talent. It is possible that our competitors, many of which have substantially greater financial and operational resources than our Networks, could revise their programming to offer more competitive programming which is of interest to our Networks' viewers.

Additionally, our Cable Networks compete with other television channels to be included in the offerings of each video service provider and for placement in the packaged offerings having the most subscribers. For example, our Cable Networks' ability to secure distribution is dependent upon the production, acquisition and packaging of programming, audience viewership, and the prices charged for carriage. Our Cable Networks' contractual agreements with Distributors are renewed or renegotiated from time to time in the ordinary course of business. With respect to WAPA, cable network programming, combined with increased access to cable and satellite TV, has become a significant competitor for broadcast television programming viewers.

Our Networks also compete for advertising revenue with general-interest television and other forms of media, including magazines, newspapers, radio and digital media. Our ability to secure additional advertising accounts relating to our Networks' operations depends upon the size of each Networks' audience, the popularity of our programming and the demographics of our viewers, as well as strategies taken by our Networks' 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 networks and other media. We cannot provide assurance that our Networks' advertising sponsors will pay advertising rates for commercial air time at levels sufficient for us to make a profit, that we will maintain relationships with our current advertising sponsors or that we will be able to attract new advertising sponsors or increase advertising revenues. Changes in ratings technology, or methodology or metrics used by advertisers or other changes in advertisers' media buying strategies also could have a material adverse effect on our financial condition and results of operations. If we are unable to attract advertising accounts in sufficient quantities, our revenues and profitability may be harmed.

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Certain technological advances, including the increased deployment of fiber optic cable, are expected to allow cable and telecommunication video service providers to continue to expand both their channel and broadband distribution capacities and to increase transmission speeds. In addition, the ability to deliver content via new methods and devices is expected to increase substantially. The impact of such added capacities is hard to predict, but the development of new methods of content distribution could dilute our Networks' market share and lead to increased competition for viewers by facilitating the emergence of additional channels and mobile and internet platforms through which viewers could view programming that is similar to that offered by our Networks.

If any of our existing competitors or new competitors, many of which have substantially greater financial and operational resources than our Networks, significantly expand their operations or their market penetration, our Business could be harmed. If any of these competitors were able to invent improved technology, or our Networks were not able to prevent them from obtaining and using their own proprietary technology and trade secrets, our Business and operating results, as well as our Networks' future growth prospects, could be negatively affected. There can be no assurance that our Networks will be able to compete successfully in the future against existing or new competitors, or that increasing competition will not have a material adverse effect on our Business, financial condition or results of operations.

***Interpretation of certain terms of our distribution agreements may have an adverse effect on the distribution payments we receive under those agreements.***

Many of our distribution agreements contain "most favored nation" clauses. These clauses typically provide that if we enter into an agreement with another Distributor which contains certain more favorable terms, we must offer some of those terms to our existing Distributors. While we believe that we have appropriately complied with the most favored nation clauses included in our distribution agreements, these agreements are complex and other parties could reach a different conclusion that, if correct, could have a material adverse effect on our results of operations and financial position.

***Our results may be adversely affected if long-term programming contracts are not renewed on sufficiently favorable terms.***

Our Networks enter into long-term contracts for acquisition of programming, including movies, television series, sporting rights and other programs. As these contracts expire, our Networks must renew or renegotiate these contracts, and if our Networks are unable to renew them on acceptable terms, we may lose programming rights. Even if these contracts are renewed, the cost of obtaining programming rights may increase (or increase at faster rates than our historical experience) or the revenue from distribution of programs may be reduced (or increase at slower rates than our historical experience). With respect to the acquisition of programming rights, the impact of these long-term contracts on our results over the term of the contracts depends on a number of factors, including effectiveness of marketing efforts, the size of audiences and the strength of advertising markets. There can be no assurance that revenues from programming based on these rights will exceed the cost of the rights plus the other costs of distributing the programming.

***There has been a shift in consumer behavior as a result of technological innovations and changes in the distribution of content, which may affect our viewership and the profitability of our Business in unpredictable ways. Our Networks' failure to acquire or maintain state-of-the-art technology or adapt our business models may harm our Business and competitive advantage.***

Technology in the video, telecommunications and data services industry is changing rapidly. Consumer behavior related to changes in content distribution and technological innovation affect our economic model and viewership in ways that are not entirely predictable. Consumers are increasingly viewing content on a time-delayed or on-demand basis from traditional distributors and from connected

apps and websites and on a wide variety of screens, such as televisions, tablets, mobile phones and other devices. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. There is increased demand for short-form, user-generated and interactive content, which have different economic models than our traditional content offerings. Digital downloads, rights lockers, rentals and subscription services are competing for consumer preferences with each other and with traditional physical distribution of our content. Each distribution model has different risks and economic consequences for us, so the rapid evolution of consumer preferences may have an economic impact that is not completely predictable. Distribution windows are also evolving, potentially affecting revenues from other windows. 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 harm to our Business and operating results. Additionally, the development of new methods of content distribution could dilute our Networks' market share and lead to increased competition for viewers. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our Business could be adversely affected.

Certain digital video recording technologies offered by cable and satellite systems allow viewers to digitally record, store and play back television programming at a later time and may impact our advertising revenue. Most of these technologies permit viewers to fast forward through advertisements; or, in certain cases, skip them entirely. The use of these technologies may decrease viewership of commercials as recorded by media measurement services such as Nielsen and, as a result, lower the advertising revenues of our television stations. The current ratings provided by Nielsen for use by linear content providers are limited to live viewing plus viewing of a digitally recorded program on the same day as the original air date and give broadcasters no credit for delayed viewing that occurs after the original air date. The effects of new ratings system technologies including people meters and set-top boxes, and the ability of such technologies to be a reliable standard that can be used by advertisers is currently unknown.

***We face cybersecurity and similar risks, which could result in the disclosure of confidential information, disruption of our programming services, damage to our brands and reputation, legal exposure and financial losses.***

Our information technology systems, including our online, mobile and app offering, as well as our internal systems, are susceptible to security breaches, operational data loss, general disruptions in functionality, and may not be compatible with new technology. We depend on our information technology systems for the effectiveness of our operations and to interface with our Networks' customers, as well as to maintain financial records and accuracy. Although we have systems in place to monitor our security measures, disruption or failures of our and our subsidiaries' information technology systems, due to employee error, computer malware, viruses, hacking and phishing attacks, or otherwise, could impair our ability to effectively and timely provide services and products and maintain our financial records. Additionally, outside parties may attempt to fraudulently induce employees or users to disclose sensitive or confidential information in order to gain access to data. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any such breach or unauthorized access could result in a loss of our proprietary information, which may include user data, a disruption of our services or a reduction of the revenues we are able to generate from such services, damage to our brands and reputation, a loss of confidence in the security of our offerings and services, and

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significant legal and financial exposure, each of which could potentially have a material adverse effect on our Business.

***We are subject to restrictions on foreign ownership.***

Under the Communications Act, a broadcast license may not be granted to or held by any corporation that has more than 20% of its capital stock owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations.

Furthermore, the Communications Act provides that no FCC broadcast license may be granted to or held by any corporation that is directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds the public interest will be served by the refusal or revocation of such license. These restrictions apply in modified form to other forms of business organizations, including partnerships and limited liability companies. The FCC has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such entity.

On January 18, 2017, the FCC granted our request to allow foreign investors or aliens to own up to 49.99% of our capital stock and hold 49.99% of our voting power. However, we are required to obtain specific approval from the FCC before any alien acquires more than 5% of our capital stock or more than 5% voting rights, other than certain foreign investors that the FCC approved in the declaratory ruling and a modification to the declaratory ruling requesting approval for additional parties which the FCC approved on September 18, 2018. We are also required to take remedial actions with the FCC if we determine that an unapproved alien has acquired more than 5% of our capital stock or voting rights.

To the extent necessary to comply with the Communications Act, FCC rules and policies, and the FCC's declaratory ruling, our board of directors may (i) prohibit the ownership, voting or transfer of any portion of our outstanding capital stock to the extent the ownership, voting or transfer of such portion would cause us to violate or would otherwise result in violation of any provision of the Communications Act, FCC rules and policies, or the FCC's declaratory ruling; (ii) convert shares of our Class B common stock into shares of our Class A common stock to the extent necessary to bring us into compliance with the Communications Act, FCC rules and policies, or the FCC's declaratory ruling; and (iii) redeem capital stock to the extent necessary to bring us into compliance with the Communications Act, FCC rules and policies, or the FCC's declaratory ruling or to prevent the loss or impairment of any of our FCC licenses.

***Federal regulation of the broadcasting industry limits WAPA's operating flexibility.***

The ownership, operation and sale of broadcast television stations, such as WAPA, are subject to the jurisdiction of the FCC under the Communications Act. Matters subject to FCC oversight include the assignment of frequency bands for broadcast television; the approval of a television station's frequency, location and operating power; the issuance, renewal, revocation or modification of a television station's FCC license; the approval of changes in the ownership or control of a television station's licensee; the regulation of equipment used by television stations; and the adoption and implementation of regulations and policies concerning the ownership, operation, programming and employment practices of television stations.

WAPA depends upon maintaining its broadcast licenses, which are issued by the FCC for a term of eight years and are renewable. Applications to renew the broadcast licenses of all television stations licensed to communities in Puerto Rico, including those associated with WAPA-TV, were renewed in 2013. In the future, interested parties may challenge a renewal application. The FCC has the authority

to revoke licenses, not renew them, or renew them with conditions, including renewals for less than a full term. It cannot be assured that our license renewal applications for WAPA in the future will be approved, or that the renewals, if granted, will not include conditions or qualifications that could adversely affect our operations. If WAPA's licenses are not renewed in the future, or renewed with substantial conditions or modifications (including renewing one or more of our licenses for a term of fewer than eight years), it could prevent us from operating WAPA and generating revenue from it.

Furthermore, WAPA's ability to successfully negotiate and renegotiate future retransmission consent agreements may be hindered by potential legislative or regulatory changes to the framework under which these agreements are negotiated. In March 2011, the FCC issued a Notice of Proposed Rulemaking to consider changes to its rules governing the negotiation of retransmission consent agreements. The FCC concluded that it lacked statutory authority to impose mandatory arbitration or interim carriage obligations in the event of a dispute between broadcasters and pay television operators. The FCC, however, sought comment on whether it should (1) strengthen existing regulatory provisions requiring broadcasters and MVPDs to negotiate retransmission consent in "good faith," (2) enhance notice obligations to consumers of potential disruptions in service, and/or (3) extend the prohibition on ceasing carriage of a broadcast station's signal during an audience measurement period to Direct broadcast satellite ("DBS") systems. In accordance with the STELA Reauthorization Viewer Act of 2014, in 2015, the FCC eliminated the rules which had precluded cable operators from deleting or repositioning local television stations during "sweeps" rating period. The FCC also issued a NPRM to review the totality of the circumstances test which is used determine whether television stations and MVPDs are negotiating retransmission consent agreements in good faith.

***Our Networks are subject to FCC sanctions or penalties if they violate the FCC's rules or regulations.***

If we or any of our officers, directors, or attributable interest holders materially violate the FCC's rules and regulations or are convicted of a felony or are found to have engaged in unlawful anticompetitive conduct or fraud upon another government agency, the FCC may, in response to a petition by a third party or on its own initiative, in its discretion, commence a proceeding to impose sanctions upon us that could involve the imposition of monetary penalties, the denial of a license renewal application, revocation of a broadcast license or other sanctions. In addition, the FCC has recently emphasized more vigorous enforcement of certain of its regulations, including indecency standards, sponsorship identification requirements, children's programming requirements, public file requirements, which impact broadcasters, and also rules that relate to the emergency alert system and closed captioning, and equal employment opportunity outreach and recordkeeping requirements, which impact MVPDs. For example, in 2019, the statutory maximum fine for broadcasting indecent material increased from $397,251 to $407,270 per incident. In 2014, the FCC issued fines against three cable network owners, with the fines ranging from $280,000 to $1,120,000, for violating FCC rules relating to the emergency alert system. These enhanced enforcement efforts could result in increased costs associated with the adoption and implementation of stricter compliance procedures at our Business facilities or FCC fines. Additionally, the effect of recent judicial decisions regarding the FCC's indecency enforcement practices remain unclear and we are unable to predict the impact of these decisions on the FCC's enforcement practices, which could have a material adverse effect on our Business.

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

The multichannel video programming distribution industry is subject to extensive legislation and regulation at the federal level, and many aspects of such regulation are currently the subject of judicial proceedings and administrative or legislative proposals. Operating in a regulated industry increases our

cost of doing business as video programmers, and such regulation may also hinder our ability to increase and/or maintain our revenues. The regulation of programming services is subject to the political process and continues to be under evaluation and subject to change. Material changes in the law and regulatory requirements are difficult to anticipate and our Business may be harmed by future legislation, new regulation, deregulation and/or court decisions interpreting such laws and regulations.

The following are examples of the types of currently active legislative, regulatory and judicial inquiries and proceedings that may impact our Cable Networks. The FCC may adopt rules which would require cable and satellite providers to make available programming channels on an a la carte basis. A major component of our financial growth strategy is based on our ability to increase our Cable Networks' subscriber base. If our Cable Networks' programming services are required by the FCC to be offered on an "a la carte" basis, our Cable Networks could experience higher costs, reduced distribution of our program service, perhaps significantly, and lose viewers. There can be no assurance that we will be able to maintain or increase our Cable Networks' subscriber base on cable, satellite and telco 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 or increase our Cable Networks' current subscriber fee rates.

Further, the FCC and certain courts are examining the types of technologies that will be considered "multichannel video programming systems" under federal regulation and the rules that will be applied to distribution of television programming via such technologies. We cannot predict the outcome of any of these inquiries or proceedings or how their outcome would impact our ability to have our Cable Networks' content carried on multichannel programming distribution and the value of our advertising inventories.

***Our Cable Networks are subject to Program Access restrictions.***

Because certain of our directors are also directors of cable companies we are considered to be a vertically integrated cable programmer and are subject to the program access rules. The other holdings of entities that acquire an interest in our capital stock may be attributable to our Cable Networks and could further subject us to the program access rule restrictions. While we do not believe our status as a vertically integrated cable programmer will materially limit or impair the activities of our Cable Networks, the program access rules could have a material adverse effect on our Business, financial condition and results of operations.

***Cable, satellite and telco 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 programming has been widely reported, and the access or "smart" cards used in service providers' conditional access systems have been compromised and could be further compromised in the future. When conditional access systems are compromised, our Networks do not receive the potential subscriber fee revenues from the service providers. Further, measures that could be taken by service providers to limit such theft are not under our control. While we take proactive steps to combat piracy through the encryption of our signal and other measures, there can be no assurances that these or other steps are effective. Piracy of our Networks' copyrighted materials could reduce our revenue and negatively affect our Business and operating results.

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***"Must-carry" regulations reduce the amount of channel space that is available for carriage of the Cable Networks cable offerings.***

The Cable Act of 1992 imposed "must carry" or "retransmission consent" regulations on cable systems, requiring them to carry the signals of local broadcast television stations that choose to exercise their must carry rights rather than negotiate a retransmission consent arrangement. DBS systems are also subject to their own must carry rules. The FCC's implementation of these "must-carry" obligations requires cable and DBS operators to give certain broadcasters preferential access to channel space. This reduces the amount of channel space that is available for carriage of our Cable Networks offerings by cable television systems and DBS operators in the U.S. Congress, the FCC or any other foreign government may, in the future, adopt new laws, regulations and policies regarding a wide variety of matters which could affect our Cable Networks.

***We have operations, properties and viewers that are located in Puerto Rico and Florida and could be adversely affected in the event of a hurricane or other extreme weather conditions.***

WAPA's corporate office and production facilities are located in Puerto Rico, where major hurricanes have occurred, as well as other extreme weather conditions, such as tornadoes, floods, fires, unusually heavy or prolonged rain, droughts and heat waves. Additionally, our corporate office and certain of our operations provided by our service providers are located in Miami, Florida, where similar weather conditions have occurred, including major hurricanes. Depending on where any particular hurricane or other weather event makes landfall, our properties or those of our service providers could experience significant damage. Such event could have an adverse effect on our ability to broadcast our programming or produce new shows, which could have an adverse effect on our Business and results of operations. Additionally, many of WAPA's regular viewers may be left without power and unable to view our programming which could have an adverse effect on our Business and results of operations.

Recently, Hurricanes Irma and Maria caused substantial damage to property and infrastructure in Puerto Rico, including limited damage to our studios and offices and to two of our three transmission towers and significant damage beyond repair to the third of our transmission towers. While WAPA-TV is not currently operating from its FCC-licensed facilities, we have modified the WAPA-TV facilities to broadcast over-the-air, and have received authorization from the FCC to construct modified facilities for WAPA-TV at a new transmitter site. WAPA-TV is operating from the new site with interim facilities until construction of the permanent facilities is completed. The hurricanes destroyed residential and commercial buildings, agriculture, communications networks and most of Puerto Rico's electric grid. We have prepared claims under our property and casualty policies totaling approximately $9.8 million. Through 2018, we have received a total of $5.8 million, and we are optimistic that we will receive payment in the fiscal year ending December 31, 2019 on most of the remaining balance of our property losses, subject to deductibles and other costs. Beyond physical damage, the extraordinary situation in Puerto Rico has adversely affected WAPA's business in the fiscal year ended December 31, 2017 and year ending December 31, 2018. Following the hurricanes, there was a steep drop off in advertising revenue in Puerto Rico. There was also significant impact on affiliate revenues in Puerto Rico for the year ended December 31, 2017 and continued impact to the advertising market. Generally, for both advertising and affiliate revenues in Puerto Rico, we do not expect significant improvement until power is more widely restored and Nielsen recommences ratings measurements on the island. While we anticipate that a significant portion of the adverse impact to the operations of our business will be mitigated through business interruption insurance, it will not offset the full extent of the income loss. Furthermore, there can be no assurances of the timing and amount of proceeds we may recover under any our insurance policies. Finally, as a result of the hurricanes, a significant number of citizens have left, or may leave, Puerto Rico, and there can be no assurance about when they will return, if at all. As a result, the disruption from the storms, coupled with the uncertainty regarding the timing of the

recovery and possible declines in television households, could have a material adverse effect on our results of operations and financial position

***Puerto Rico's continuing economic hardships may have a negative effect on the overall performance of our Business, financial condition and results of operations.***

Financial and economic conditions in Puerto Rico have further deteriorated and continue to be uncertain. The continuation or worsening of such conditions could have an adverse effect on our Business, results of operations, and/or financial condition.

The Puerto Rican economy has been and continues to be in a recession since 2006, and has been burdened by limited economic activity, lower-than-estimated revenue collections, high government debt levels relative to the size of the economy and other potential fiscal challenges. Moreover, Hurricane Maria caused a significant disruption to the island's economic activity and GNP. For more information on the Puerto Rican economy, see " Industry Puerto Rico Overview Economy".

Additionally, Puerto Rico's track record of poor budget controls and high poverty levels compared to the U.S. average presents ongoing challenges. On October 23, 2018, the Oversight Board voted to certify the most recent Commonwealth fiscal plan, which reflects a $17.0 billion surplus over a six-year period assuming some levels of debt service. This fiscal plan has been approved and certified by the Financial Oversight and Management Board of Puerto Rico. According to the projections of this fiscal plan, Puerto Rico should receive $12B during the fiscal year 2019. Although some of the impact of the hurricanes, including its short-term impact on economic activity, may be offset by recovery and reconstruction activity and the influx of Federal emergency funds and private insurance proceeds, it is too early to know the total amount of Federal and private insurance money to be received and whether such transfers will significantly offset the negative economic, fiscal and demographic impact of the hurricanes. Although the current fiscal plan estimates a GNP growth of 7.8% and 5.5% in fiscal years 2019 and 2020, respectively, other economic estimates have these numbers at much lower levels between 2.8%-3.1% for 2019, and 3.4%-4.2% for 2020. This more conservative estimate assumes lower than expected reconstruction investment and external factors like US recession in 2019. There can be no assurance that any past or new actions taken by any governmental or regulatory body for the purpose of stabilizing the economy or financial markets will achieve their intended effect.

Hurricane Maria has also accelerated the outmigration trends that Puerto Rico was experiencing, with increased numbers of residents moving to the mainland United States, either on a temporary or permanent basis.

In addition to any negative direct consequences to our Business or results of operations arising from these financial, economic and climate developments, some of these actions may adversely affect our distribution partners, advertisers or other consumers on whom we rely. Our Business and results of operations could be negatively affected as a result.

***Certain of our Cable Networks and the Canal 1 joint venture have international operations and exposures that incur certain risks not found in doing business in the United States.***

Doing business in foreign countries carries with it certain risks that are not found in doing business in the United States. The risks of doing business in foreign countries that could result in losses against which our Cable Networks are not insured include:

- exposure to local economic conditions;
- potential adverse changes in the diplomatic relations of foreign countries with the United States;
- hostility from local populations;
- significant fluctuations in foreign currency value;

- the adverse effect of currency exchange controls or other restrictions;
- restrictions on the withdrawal of foreign investment and earnings;
- government policies against businesses owned by foreigners;
- investment restrictions or requirements;
- expropriations of property;
- the potential instability of foreign governments and economies;
- the risk of insurrections;
- difficulties in collecting revenues and seeking recourse against third parties owing payments to us;
- withholding and other taxes on remittances and other payments by subsidiaries;
- changes in taxation structure; and
- shifting consumer preferences regarding the viewing of video programming.

For example, Canal 1 operates solely in Colombia. Although Colombia has a long-standing tradition respecting the rule of law, which has been bolstered in recent years by the present and former government's policies and programs, no assurances can be given that our joint venture's plans and operations will not be adversely affected by future developments in Colombia. Canal 1's operations and activities in Colombia are subject to political, economic and other uncertainties, including the risk of expropriation, nationalization, renegotiation or nullification of existing contracts, broadcast licenses or other agreements, changes in laws or taxation policies, currency exchange restrictions, and changing political conditions and international monetary fluctuations. Future government actions concerning the economy, taxation, or the operation and regulation of national over-the-air broadcast concessions, could have a significant effect on the joint venture. Colombia was home to South America's largest and longest running insurgency, which ended on December 1, 2016 following the government's ratification of a peace treaty with the Revolutionary Armed Forces of Colombia ("FARC"). While the situation has improved dramatically in recent years, there can be no guarantee that the situation will not again deteriorate. Any increase in kidnapping, gang warfare, homicide and/or terrorist activity in Colombia generally may disrupt supply chains and discourage qualified individuals from being involved with the joint venture's operations. Any changes in regulations or shifts in political attitudes are beyond our control and may adversely affect the joint venture's business.

Furthermore, some foreign markets where we operate may be more adversely affected by current economic conditions than the U.S. For example, in Colombia, decreases in the growth rate, periods of negative growth, increases in inflation, changes in law, regulation, policy, or future, judicial rulings and interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, interest rates, taxation and other political or economic developments in or affecting Colombia may affect the overall business environment and may, in turn, adversely impact our joint venture's financial condition and results of operations in the future. Colombia's fiscal deficit and growing public debt could adversely affect the Colombian economy.

We also may incur additional expenses as a result of changes, including the imposition of new restrictions, in the existing economic or political environment in the regions where we do business. Acts of terrorism, hostilities, or financial, political, economic or other uncertainties could lead to a reduction in revenue or loss of investment, which could adversely affect our results of operations.

***Any violation of the Foreign Corrupt Practices Act or other similar laws and regulations could have a negative impact on us.***

We are subject to risks associated with doing business outside of the United States, which exposes us to complex foreign and U.S. regulations inherent in doing business cross-border and in each of the countries in which we transact business. We are subject to regulations imposed by the Foreign Corrupt Practices Act, or the FCPA, and other anti-corruption laws that generally prohibit U.S. companies and their subsidiaries from offering, promising, authorizing or making improper payments to foreign government officials for the purpose of obtaining or retaining business. Violations of the FCPA and other anti-corruption laws may result in severe criminal and civil sanctions as well as other penalties and the SEC and U.S. Department of Justice have increased their enforcement activities with respect to the FCPA. Internal control policies and procedures and employee training and compliance programs that we have implemented to deter prohibited practices may not be effective in prohibiting employees, contractors or agents from violating or circumventing such policies and the law. If our employees or agents fail to comply with applicable laws or company policies governing their international operations, we may face investigations, prosecutions and other legal proceedings and actions which could result in civil penalties, administrative remedies and criminal sanctions. Any determination that we have violated the FCPA could have a material adverse effect on our financial condition. Compliance with international and U.S. laws and regulations that apply to international operations increases the cost of doing business in foreign jurisdictions.

***Adverse conditions in the U.S. and international economies could negatively impact our results of operations.***

Unfavorable general economic conditions, such as a recession or economic slowdown in parts of the United States or in one or more of the major markets in which we operate, could negatively affect the affordability of and demand for some of our products and services. In addition, adverse economic conditions may lead to loss of subscriptions for our Networks. If these events were to occur, it could have a material adverse effect on our results of operations.

The risks associated with our advertising revenue become more acute in periods of a slowing economy or recession, which may be accompanied by a decrease in advertising. Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Cancellations, reductions or delays in purchases of advertising could, and often do, occur as a result of a strike, a general economic downturn, an economic downturn in one or more industries or in one or more geographic areas, or a failure to agree on contractual terms.

***Any potential hostilities, terrorist attacks, or similarly newsworthy events leading to broadcast interruptions, may affect our revenues and results of operations.***

If any existing hostilities escalate, or if the United States experiences a terrorist attack or experiences any similar event resulting in interruptions to regularly scheduled broadcasting, we may lose revenue and/or incur increased expenses. Lost revenue and increased expenses may be due to preemption, delay or cancellation of advertising campaigns, or diminished subscriber fees, as well as increased costs of covering such events. We cannot predict the (i) extent or duration of any future disruption to our programming schedule, (ii) amount of advertising revenue that would be lost or delayed, (iii) the amount of decline in any subscriber fees or (iv) the amount by which broadcasting expenses would increase as a result. Any such loss of revenue and increased expenses could negatively affect our results of operations.

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***The broadcast incentive auction has resulted in the modification of our broadcast licenses for WAPA by requiring us to operate on other channels.***

As a result of the FCC spectrum auction which was concluded in January 2017, the FCC will "repack" television stations that did not relinquish spectrum in the auction in remaining television broadcast spectrum, which requires certain television stations that did not relinquish spectrum to modify their transmission facilities, including requiring such stations to operate on other channel designations. The FCC is authorized to reimburse stations for reasonable relocation costs. The original reimbursement limit across all stations was $1.75 billion. In March 2018 Congress authorized an additional $1 billion to be used for reimbursements related to repacking and directed that a portion of the additional funds be used to reimburse low power television stations, television translator stations and FM stations that are required to modify their facilities on a temporary or permanent basis to accommodate changes made by television stations being repacked as well as for consumer education efforts. The FCC, when repacking the television broadcast spectrum, will use reasonable efforts to preserve a station's coverage area and population served. The FCC has assigned new channels to stations that are required to be "repacked" and stations are in the process of moving to their new channels, which will take place over the course of the next several years. We did not relinquish any of our spectrum in the auction. Two of our licenses, WNJX-TV and WTIN-TV, have been reassigned new channels as a result of the incentive auction, have transitioned to new channels using interim facilities and we are in the process of completing the construction of permanent facilities for WNJX-TV and WTIN-TV on their post-auction channels.

We cannot predict whether following the repacking the coverage area and population served by our stations will be completely preserved or whether the $2.75 billion set aside for reimbursing repacking expenses will be sufficient to cover all repacking expenses. Nevertheless, we do not believe that the auction will have a material negative impact on our Business, because with post-auction channel assignments our stations will remain in the more desirable UHF band; our three television stations have overlapping coverage areas, so it is unlikely that we will lose service to a significant portion of the households that we serve. If the FCC is unable to reimburse all of our repacking expenses, the amount of the shortfall is unlikely to be material to our Business as a whole.

***Our Networks are subject to interruptions of distribution as a result of our reliance on broadcast towers, satellites and Distributors for transmission of its programming. A significant interruption in transmission ability could seriously affect our Business and results of operations, particularly if not fully covered by its insurance.***

Our Networks could experience interruptions of distribution or potentially long-term increased costs of delivery if the ability of broadcast towers, satellites or satellite transponders, or Distributors to transmit our Networks' content is disrupted because of accidents, weather interruptions, governmental regulation, terrorism, or other third party action. For example, see risk factor above, "*We have operations, properties and viewers that are located in Puerto Rico and Florida and could be adversely affected in the event of a hurricane or other extreme weather conditions."*

As protection against these hazards, we maintain insurance coverage against some, but not all, such potential losses and liabilities. We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies may increase substantially. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. For example, coverage for hurricane damage can be limited, and coverage for terrorism risks can include broad exclusions. If our Networks were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position.

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***The success of much of our Business is dependent upon the retention and performance of on-air talent and program hosts and other key employees.***

Our Business depends upon the continued efforts, abilities and expertise of our corporate executive team. There can be no assurance that these individuals will remain with us. Our Business, financial condition and results of operations could be materially adversely affected if we lose any of these persons and are unable to attract and retain qualified replacements. Additionally, our Networks independently contract with several on-air personalities and hosts with significant loyal audiences in their respective markets. Although our Networks have entered into long-term agreements with some of their key on-air talent and program hosts to protect their interests in those relationships, we can give no assurance that all or any of these persons will remain with our Networks or will retain their audiences. Competition for these individuals is intense and many of these individuals are under no legal obligation to remain with our Networks. Our competitors may choose to extend offers to any of these individuals on terms which our Networks may be unable or unwilling to meet. Furthermore, the popularity and audience loyalty of our Networks' key on-air talent and program hosts is highly sensitive to rapidly changing public tastes. A loss of such popularity or audience loyalty is beyond our control and could limit our Network' ability to generate revenue and could have a material adverse effect on our Business, financial condition and results of operations.

***We may need to increase the size of our organization, and may experience difficulties in managing growth.***

At Hemisphere, the parent holding company, we do not have significant operating assets and only have a limited number of employees. In connection with the completion of any future acquisitions, we may be required to hire additional personnel and enhance our information technology systems. Any future growth may increase our corporate operating costs and impose significant added responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively. Future growth will also increase our costs and expenses and limit our liquidity.

***We could be adversely affected by strikes or other union job actions.***

A majority of our employees in Puerto Rico are highly specialized union members who are essential to the production of television programs and news. These employees are covered by our CBAs. Our main CBA expires on May 31, 2022 and covers all of our unionized employees except for four employees covered by the other CBA scheduled to expire on June 27, 2019. A strike by, or a lockout of, UPAGRA, which provides personnel essential to the production of television programs, could delay or halt our ongoing production activities. Such a halt or delay, depending on the length of time, could cause a delay or interruption in the programming schedule of certain of our Networks, which could have a material adverse effect on our Business, financial condition and results of operations.

***We could become obligated to pay additional contributions due to the unfunded vested benefits of a multiemployer pension plan. A future incurrence of withdrawal liability could have a material effect on our results of operations.***

WAPA makes contributions to the Newspaper Guild International Pension Plan (the "Plan" or "TNGIPP"), a multiemployer pension plan with a plan year end of December 31 that provides defined benefits to certain employees covered by our two CBAs. WAPA's contribution rates to the Plan are generally determined in accordance with the provisions of the CBAs and a rehabilitation plan that was adopted by the TNGIPP.

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The risks in participating in such a plan are different from the risks of single-employer plans, in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of any other participating employer.

- If a participating employer ceases to contribute to a multiemployer plan, the unfunded obligation of the plan allocable to such withdrawing employer may be borne by the remaining participating employers.

WAPA has received Annual Funding Notices, Report of Summary Plan Information, Critical Status Notices ("Notices") and the above-noted Rehabilitation Plan, as defined by the Pension Protection Act of 2006 ("PPA"), from the Plan. The Notices indicate that the Plan actuary has certified that the Plan is in critical and declining status, the "Red Zone", as defined by the PPA and the Multiemployer Pension Reform Act of 2014 ("MPRA"), due to the projected insolvency of the Plan within the next 19 years. A plan of rehabilitation ("Rehabilitation Plan") was adopted by the Trustees of the Plan ("Trustees") on May 1, 2010 and then updated on November 17, 2015.

On May 29, 2010, the Trustees sent WAPA a Notice of Reduction and Adjustment of Benefits Due to Critical Status explaining all changes adopted under the Rehabilitation Plan, including the reduction or elimination of benefits referred to as "adjustable benefits." In connection with the adoption of the Rehabilitation Plan, most of the Plan participating unions and contributing employers (including the Newspaper Guild International and WAPA), agreed to one of the "schedules" of changes as set forth under the Rehabilitation Plan. In 2015, the Plan's Trustee's reviewed the Rehabilitation Plan and the financial projections under the Plan and determined that is was not prudent to continue benefit accruals under the current Plan and that implementation of an updated plan with a new benefit design would be in the best interest of the Plan's participants.

WAPA elected the "Preferred Schedule" and executed a Memorandum of Agreement, effective May 27, 2010 (the "MOA") and agreed to the following contribution rate increases: 3.0% beginning on January 1, 2013; an additional 3.0% beginning on January 1, 2014; and an additional 3% beginning on January 1, 2015. On July 14, 2017 WAPA executed an updated MOA under which it agreed to remain a contributing employer to the Plan through May 31, 2022 and to make contributions to the Plan at a fixed rate of $18.03 per week for each WAPA covered employee during such period (i.e., its contributions per employee will not increase during the term of its CBA or through any period during which a new CBA is entered into, if any).

The future cost of the Plan depends on a number of factors, including the funding status of the Plan and the ability of other participating companies to meet ongoing funding obligations. Assets contributed to the Plan are not segregated or otherwise restricted to provide benefits only to the employees of WAPA. While WAPA's pension cost for the Plan is established by the CBA and is fixed for the term of the CBA, the Plan may revise the Rehabilitation Plan to impose additional increased contribution rates and surcharges that could be applicable to future CBAs based on the funded status of the plan and in accordance with the provisions of the Rehabilitation Plan and the PPA. Factors that could impact the funded status of the Plan include investment performance, changes in the participant demographics, financial stability of contributing employers and changes in actuarial assumptions.

The contributions required under the terms of the CBA and the effect of the Rehabilitation Plan as described above are not anticipated to have a material effect on our results of operations. However, in the event other contributing employers are unable to, or fail to, meet their ongoing funding obligations, the financial impact on WAPA to make future contributions towards any plan underfunding may be material. In addition, if a United States multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

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If WAPA completely or partially withdrew from the Plan, it would be obligated to pay complete or partial withdrawal liability (which could be material). Under the statutory requirements applicable to withdrawal liability with respect to a multiemployer pension plan, in the event of a complete withdrawal from the Plan, WAPA would be obligated to make withdrawal liability payments to fund its proportionate share of the Plan's unfunded vested benefits ("UVBs"). WAPA's payment amount for a given year would be determined based on its highest contribution rate (as limited by MPRA) and its highest average contribution hours over a period of three consecutive plan years out of the ten-year period preceding the date of withdrawal. To the extent that the prescribed payment amount was not sufficient to discharge WAPA's share of the Plan's UVBs, WAPA's payment obligation would nevertheless end after 20 years of payments (absent a withdrawal that is part of a mass withdrawal, in which case the annual payments would continue indefinitely or until WAPA paid its share of the Plan's UVBs at the time of withdrawal).

Pursuant to the last available notice (for the Plan year ended December 31, 2017), WAPA's contributions to the Plan exceeded 5% of total contributions made to the Plan. For more information, see Note 11, "Retirement Plans" of Notes to Consolidated Financial Statements, included in this Annual Report.

***A large portion of our revenue is generated from a limited number of customers, and the loss of these customers could adversely affect our Business.***

Our Networks depend upon agreements with a limited number of Distributors. For the year ended December 31, 2018, two of our Distributors accounted for more than 10% of our total net revenues. The loss of channel carriage with any significant Distributor, or our inability to renew an affiliation agreement with any significant Distributor on acceptable terms, would have a materially adverse effect on our Business, financial condition and results of operations.

***If our goodwill or intangibles become impaired, we will be required to recognize a non-cash charge which could have a significant effect on our reported net earnings.***

A significant portion of our assets consist of goodwill and intangibles. We test our goodwill and intangibles for impairment each year. A significant downward revision in the present value of estimated future cash flows for a reporting unit could result in an impairment of goodwill and intangibles and a noncash charge would be required. Such a charge could have a significant effect on our reported net earnings.

***Possible strategic initiatives may impact our Business.***

We will continue to evaluate the nature and scope of our operations and various short-term and long-term strategic considerations. There are uncertainties and risks relating to strategic initiatives. Also, prospective competitors may have greater financial resources. These factors may place us at a competitive disadvantage in successfully completing future acquisitions and investments. Future acquisitions or joint ventures may not be available on attractive terms, or at all. If we do make additional acquisitions, we may not be able to successfully integrate the acquired businesses. For example, we could face several challenges in the consolidation and integration of information technology, accounting systems, personnel and operations. In addition, while we believe that there may be target businesses that we could potentially acquire or invest in, our ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by our available financial resources. We may need to obtain additional financing in order to consummate future acquisitions and investment opportunities. We cannot assure you that any additional financing will be available to us on acceptable terms, if at all. This inherent competitive limitation gives others with greater financial resources an advantage in pursuing acquisition and investment opportunities. Finally, certain acquisitions or divestitures may be subject to FCC approval and FCC rules and regulations. If we do

not realize the expected benefits or synergies of such transactions, there may be an adverse effect on our Business, financial condition and results of operations.

***Future acquisitions or business opportunities, including investments in complementary businesses could involve unknown risks that could harm our Business and adversely affect our financial condition.***

From time to time, we have acquired or invested in complementary businesses and entered into joint ventures/investments. In the future we may make other acquisitions, invest in complementary businesses including joint ventures that involve unknown risks, and may involve significant cash expenditures, debt incurrence, operating losses and expenses that could have a material adverse effect on our Business, financial condition, results of operations and cash flows. Such transactions involve numerous other risks including:

- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals on favorable terms;
- potential loss of key employees, key contractual relationships or key customers of either acquired businesses or our business;
- assumption of the liabilities and exposure to unforeseen or undisclosed liabilities of acquired businesses;
- dilution of interests of holders of our common shares through the issuance of equity securities or equity-linked securities; and
- in the case of joint ventures and other investments, interests that diverge from those of our partners without the ability to direct the management and operations of the joint venture or investment in the manner we believe most appropriate.

Although we intend to conduct extensive business, financial and legal due diligence in connection with the evaluation of future business or acquisition opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. We may be unable to adequately address the financial, legal and operational risks raised by such businesses, acquisitions or joint ventures. The realization of any unknown risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of the businesses or acquisitions, which could adversely affect our financial condition and liquidity. In addition, our Business, financial condition, results of operations and the ability to service our debt may be adversely impacted depending on specific risks applicable to any business or company we acquire.

***Our equity method investments' past financial performance may not be indicative of future results.***

We have equity investments in several entities and the accounting treatment applied for these investments varies depending on a number of factors, including, but not limited to, our percentage ownership and the level of influence or control we have over the relevant entity. Any losses experienced by these entities could adversely impact our results of operations and the value of our investment. For example, our results of operations and the value of our investment in the Canal 1 joint venture may be affected by the inability to monetize its ratings and secure a fair share of broadcast advertising revenue and the failure to renew the concession agreement on favorable terms. Similarly, our results of operations and the value of our investment in the Pantaya joint venture may be affected by the inability to sufficiently grow subscribers to the Spanish-language video subscription service. In addition, if these entities were to fail and cease operations, we may lose the entire value of our

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investment and the stream of any shared profits. Some of our ventures may require additional uncommitted funding.

***Our use of joint ventures may limit our flexibility with jointly owned investments.***

We have and may continue in the future to develop and/or acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to risks that may not be present with other methods of ownership, including but not limited to:

- difficulties integrating acquired businesses, technologies and personnel into our business;
- we could experience an impasse on certain decisions because we do not have sole decision-making authority, which could require us to expend additional resources to resolve such impasses or potential disputes, including litigation or arbitration;
- our joint venture partners could have investment and financing goals that are not consistent with our objectives, including the timing, terms and strategies for any investments, and what levels of debt to incur or carry;
- our ability to transfer our interest in a joint venture to a third party may be restricted and the market for our interest may be limited;
- our joint venture partners might become bankrupt, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner, which may require us to infuse our own capital into the venture on behalf of the partner despite other competing uses for such capital; and
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues.

Any of the foregoing risks could materially adversely affect our Business, results of operations and financial condition.

***Any potential acquisition or investment in a foreign business or a company with significant foreign operations may subject us to additional risks.***

Acquisitions or investments by us in a foreign business or other companies with significant foreign operations, subjects us to risks inherent in business operations outside of the United States. These risks include, for example, currency fluctuations, complex foreign regulatory regimes, unstable local tax policies, restrictions on the movement of funds across national borders and cultural and language differences. If realized, some of these risks may have a material adverse effect on our Business, results of operations and liquidity, and can have an adverse effect on our ability to service our debt.

***We could consume resources in researching acquisitions, business opportunities or financings and capital market transactions that are not consummated, which could materially adversely affect subsequent attempts to locate and acquire or invest in another business.***

We anticipate that the investigation of each specific acquisition or business opportunity and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments, with respect to such transaction, will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific acquisition, business opportunities or financings and capital market transactions investment or financing, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition, investment target or financing, we may fail to consummate the investment or acquisition for

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any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our ability to consummate other acquisitions and investments.

***We have incurred substantial costs in connection with our previous acquisitions, joint ventures and growth strategy, including legal, accounting, advisory and other costs.***

We have incurred substantial costs, including a number of non-recurring costs, in connection with our prior acquisitions, joint ventures and growth strategy and expect to incur substantial costs in connection with any other transaction we complete in the future. Some of these costs are payable regardless of whether the acquisition is completed. These costs will reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs will not exceed our estimates. We may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions, and joint ventures in fiscal quarters subsequent to the quarter in which the relevant acquisition was consummated.

***Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.***

We have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or in any transaction to which we are a party or have an interest. Nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We may, subject to the terms of our Second Amended Term Loan Facility and applicable law, enter into transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we may become involved, and may also compete with us.

***In the course of their other business activities, certain of our officers and directors may become aware of investment and acquisition opportunities that may be appropriate for presentation to us as well as the other entities with which they are affiliated. Such officers and directors may have conflicts of interest in determining to which entity a particular business opportunity should be presented.***

Certain of our officers and directors may become aware of business opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to those officers' and directors' existing affiliations with other entities, they may have fiduciary obligations to present potential business opportunities to those entities in addition to presenting them to us, which could cause additional conflicts of interest. To the extent that such officers and directors identify business combination opportunities that may be suitable for entities to which they have pre-existing fiduciary obligations, or are presented with such opportunities in their capacities as fiduciaries to such entities, they may be required to honor their pre-existing fiduciary obligations to such entities. Accordingly, they may not present business combination opportunities to us that otherwise may be attractive to such entities unless the other entities have declined to accept such opportunities.

***Future acquisitions and dispositions may not require a stockholder vote and may be material to us.***

Any future acquisitions could be material in size and scope, and our stockholders and potential investors may have virtually no substantive information about any new business upon which to base a decision whether to invest in our Class A common stock. In any event, depending upon the size and structure of any acquisitions, stockholders are generally expected to not have the opportunity to vote on the transaction, and may not have access to any information about any new business until the

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transaction is completed and we file a report with the Commission disclosing the nature of such transaction and/or business. Similarly, we may effect material dispositions in the future. Even if a stockholder vote is required for any of our future acquisitions, under our amended and restated certificate of incorporation and our amended and restated bylaws, our stockholders are allowed to approve such transactions by written consent, which may effectively result in only our controlling stockholder having an opportunity to vote on such transactions.

***Protection of electronically stored data is costly and if our data is compromised in spite of this protection, we may incur additional costs, lost opportunities and damage to our reputation.***

We maintain information in digital form necessary to conduct our Business, including confidential and proprietary information regarding our Networks' advertisers, customers, Distributors, employees and viewers as well as personal information. Data maintained in digital form is subject to the risk of intrusion, tampering and theft. We develop and maintain systems to prevent this from occurring, but the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Moreover, despite our efforts, the possibility of intrusion, tampering and theft cannot be eliminated entirely, and risks associated with each of these remain. In addition, we provide confidential, proprietary and personal information to third parties when it is necessary to pursue business objectives. While we obtain assurances that these third parties will protect this information and, where appropriate, monitor the protections employed by these third parties, there is a risk the confidentiality of data held by third parties may be compromised. If our data systems are compromised, our ability to conduct our Business may be impaired, we may lose profitable opportunities or the value of those opportunities may be diminished and, as described above, we may lose revenue as a result of unlicensed use of our intellectual property. Further, a penetration of our network security or other misappropriation or misuse of personal consumer or employee information could subject us to financial, litigation and reputation risk, which could have a negative effect on our Business, financial condition and results of operations.

***Unrelated third parties may bring claims against us based on the nature and content of information posted on websites maintained by our Networks.***

Our Networks host, or may host in the future, internet sites that enable individuals to exchange information, generate content, comment on content, and engage in various online activities. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and internationally. Claims may be brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that may be posted online or generated by our Networks' internet site users, including WAPA.TV, CINELATINO.COM, TVPASIONES.COM, CENTROAMERICATV.TV, TELEVISIONDOMINICANA.TV, and SNAPTV.TV. Defenses of such actions could be costly and involve significant time and attention of our Networks' management, our management and other resources.

***The success of our Business is highly dependent on the existence and maintenance of intellectual property rights in the entertainment products and services we create.***

The value to us of our intellectual property rights is dependent on the scope and duration of our rights as defined by applicable laws in the U.S. and abroad and the manner in which those laws are construed. If those laws are drafted or interpreted in ways that limit the extent or duration of our rights, or if existing laws are changed, our ability to generate revenue from our intellectual property may decrease, or the cost of obtaining and maintaining rights may increase. There can be no assurance that our efforts to enforce our rights and protect our products, services and intellectual property will be successful in preventing content piracy or signal theft. Content piracy and signal theft present a threat to our revenues.

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The unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. New technologies such as the convergence of computing, communication, and entertainment devices, the falling prices of devices incorporating such technologies, and increased broadband internet speed and penetration have made the unauthorized digital copying and distribution of our programming content easier and faster and enforcement of intellectual property rights more challenging. The unauthorized use of intellectual property in the entertainment industry generally continues to be a significant challenge for intellectual property rights holders. Inadequate laws or weak enforcement mechanisms to protect intellectual property in one country can adversely affect the results of our operations worldwide, despite our efforts to protect our intellectual property rights. These developments may require us to devote substantial resources to protecting our intellectual property against unlicensed use and present the risk of increased losses of revenue as a result of unlicensed distribution of our content.

With respect to intellectual property developed by us and rights acquired by us from others, we are subject to the risk of challenges to our copyright, trademark and patent rights by third parties. Successful challenges to our rights in intellectual property may result in increased costs for obtaining rights or the loss of the opportunity to earn revenue from the intellectual property that is the subject of challenged rights. We are not aware of any challenges to our intellectual property rights that we currently foresee having a material effect on our operations.

***If we are unable to protect our domain names, our reputation and brands could be adversely affected.***

We currently hold various domain name registrations relating to our brands. The registration and maintenance of domain names generally are regulated by governmental agencies and their designees. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to register or maintain relevant domain names. We may be unable, without significant cost or at all, to prevent third parties from registering domain names that are similar to, infringe upon or otherwise decrease the value of, our and our subsidiaries trademarks and other proprietary rights. Failure to protect our domain names could adversely affect our reputation and brands, and make it more difficult for users to find our Business's websites and services.

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

Other parties may assert intellectual property infringement claims against us, and our Networks' products may infringe the intellectual property rights of third parties. From time to time, our Business receives 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 proprietary rights on a timely basis would harm our Business.

***Changes in governmental regulation, interpretation or legislative reform could increase our Business's cost of doing business and adversely affect our profitability.***

Laws and regulations, including in the areas of advertising, consumer affairs, data protection, finance, marketing, privacy, publishing and taxation requirements, are subject to change and differing interpretations. Changes in the political climate or in existing laws or regulations, or their

interpretations, or the enactment of new laws or the issuance of new regulations or changes in enforcement priorities or activity could adversely affect us by, among other things:

- increasing our administrative, compliance, and other costs;
- forcing us to undergo a corporate restructuring;
- limiting our ability to engage in inter-company transactions with our affiliates and subsidiaries;
- increasing our tax obligations, including unfavorable outcomes from audits performed by various tax authorities;
- affecting our ability to continue to serve our Networks' customers and to attract new customers;
- affecting cash management practices and repatriation efforts;
- forcing us to alter or restructure our Networks' relationships with vendors and contractors;
- increasing compliance efforts or costs;
- limiting our use of or access to personal information;
- restricting our ability to market our products; and
- requiring us to implement additional or different programs and systems.

For example, the newly-enacted Tax Cuts and Jobs Act and the Bipartisan Budget Act of 2018 could adversely impact our results of operations. The determination of our worldwide provision for income taxes and current and deferred tax balances requires judgment and estimation. Our provision for income taxes could also be materially adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets, or by changes in worldwide tax laws, regulations, or accounting principles.

Compliance with regulations is costly and time-consuming, and we may encounter difficulties, delays or significant expenses in connection with such compliance, and we may be exposed to significant penalties, liabilities, reputational harm and loss of business in the event that we fail to comply. While it is not possible to predict when or whether fundamental policy or interpretive changes would occur, these or other changes could fundamentally change the dynamics of the industries in which we operate or the costs associated with our operations. Changes in public policy or enforcement priorities could materially affect our profitability, our ability to retain or grow business, or in the event of extreme circumstances, our financial condition. There can be no assurance that legislative or regulatory change or interpretive differences will not have a material adverse effect on our Business.

***Changes in accounting standards can significantly impact reported operating results.***

Generally accepted accounting principles, accompanying pronouncements and implementation guidelines for many aspects of our Business, including those related to intangible assets and income taxes, are complex and involve significant judgments. Changes in these rules or their interpretation could significantly change our reported operating results.

***Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting and to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements or negative reports concerning our internal controls could have a material adverse effect on our future results of operations and financial condition.***

The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. We must perform system and

process evaluation and testing of our internal control over financial reporting to allow our management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in internal control over financial reporting that are deemed to be material weaknesses. Compliance with Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues. The need to focus on compliance with Section 404 of Sarbanes-Oxley may strain management and finance resources and otherwise present additional administrative and operational challenges as our management seeks to comply with these requirements.

We may in the future discover areas of our internal controls that need improvement, particularly with respect to our existing acquired businesses, businesses that we may acquire in the future and newly formed businesses or entities. We cannot be certain that any remedial measures we take will ensure that we implement and maintain adequate internal controls over our financial reporting processes and reporting in the future.

In addition, we may acquire an entity that was not previously subject to U.S. public company requirements or did not previously prepare financial statements in accordance with GAAP or is not in compliance with the requirements of the Sarbanes-Oxley Act of 2002 or other public company reporting obligations applicable to such entity. We may incur additional costs in order to ensure that after such acquisition, we continue to comply with the requirements of the Sarbanes-Oxley Act of 2002 and our other public company requirements, which in turn could reduce our earnings or cause us to fail to meet our reporting obligations. In addition, development of an adequate financial reporting system and the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act of 2002 may increase the time and costs necessary to complete any such acquisition or cause us to fail to meet our reporting obligations. To the extent any of these newly acquired entities or any existing entities have deficiencies in its internal controls, it may impact our internal controls.

Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are not able to comply with the requirements of Section 404 in a timely manner, if we fail to remedy any material weakness and maintain effective internal control over our financial reporting in the future, or if our independent registered public accounting firm is unable to provide us with an unqualified report regarding the effectiveness of our internal controls over financial reporting to the extent required by Section 404 of the Sarbanes-Oxley Act of 2002, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, investors could lose confidence in the reliability of our financial statements, our access to the capital markets may be restricted, the trading price of our Class A common stock may decline, and we may be subject to sanctions or investigations by regulatory authorities, including the SEC or NASDAQ. In addition, failure to comply with our reporting obligations with the Commission may cause an event of default to occur under our Second Amended Term Loan Facility, or similar instruments governing any debt we incur in the future.

***From time to time we may be subject to litigation for which we may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.***

We and our subsidiaries are or may become parties to legal proceedings that are considered to be either ordinary or routine litigation incidental to our or their current or prior businesses or not material to our consolidated financial position or liquidity. There can be no assurance that we will prevail in any litigation in which we or our subsidiaries may become involved, or that our or their insurance coverage will be adequate to cover any potential losses. To the extent that we or our subsidiaries sustain losses from any pending litigation which are not reserved or otherwise provided for or insured against, our Business, results of operations, cash flows and/or financial condition could be materially adversely affected.

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***Our Second Amended Term Loan Facility may limit our financial and operating flexibility.***

Our Second Amended Term Loan Facility includes financial covenants restricting our subsidiaries ability to incur additional indebtedness, pay dividends or make other payments, make loans and investments, sell assets, incur certain liens, enter into transactions with affiliates, and consolidate, merge or sell assets. These covenants limit our ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of our assets and opportunities fully because of the need to dedicate a portion of cash flow from operations to payments on debt. In addition, such covenants limit our flexibility in planning for, or reacting to, changes in the industries in which we operate.

**Risks Related to Our Securities and Corporate Structure**

***If securities or industry analysts do not publish or cease publishing research or reports about us, our Business, or our market, or if they change their recommendations regarding our Class A common stock adversely, the price and trading volume of our Class A common stock could decline.***

If securities or industry analysts do not publish or cease publishing research or reports about us, our Business, or our market, or if they change their recommendations regarding our Class A common stock adversely, the price and trading volume of our Class A common stock could decline. The trading market for our Class A common stock will be influenced by the research and reports that industry or securities analysts may publish about our Business, our market, or our competitors. As of December 31, 2017, only two industry analysts published research on our Business. If any of the analysts who may cover our Business change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, the price of our Class A common stock would likely decline. If any analyst who may cover our Business were to cease coverage of Hemisphere or fail to regularly publish reports about us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***The stock price of our Class A common stock may be volatile.***

The stock price of our Class A common stock may be volatile and subject to wide fluctuations. In addition, the trading volume of our Class A common stock may fluctuate and cause significant price variations to occur. Some of the factors that could cause fluctuations in the stock price or trading volume of our Class A common stock include:

- market and economic conditions, including market conditions in the cable television programming and broadcasting industries;
- actual or expected variations in quarterly operating results;
- liquidity of our Class A common stock;
- differences between actual operating results and those expected by investors and analysts;
- changes in recommendations by securities analysts;
- operations and stock performance of our competitors;
- accounting charges, including charges relating to the impairment of goodwill;
- significant acquisitions or strategic alliances by us or by our competitors;

sales of our Class A common stock, including sales by our directors and officers or significant investors;

recruitment or departure of key personnel;

- loss of key advertisers; and

- changes in reserves for professional liability claims.

We cannot assure you that the price of our Class A common stock will not fluctuate or decline significantly in the future. In addition, the stock market in general can experience considerable price and volume fluctuations that may be unrelated to our performance.

***The market liquidity for our Class A common stock is relatively low and may make it difficult to purchase or sell our Class A common stock.***

The average daily trading volume in our Class A common stock during the year ended December 31, 2018 was approximately 41,427 shares. Although a more active trading market may develop in the future, there can be no assurance as to the liquidity of any markets that may develop for our Class A common stock or the prices at which holders may be able to sell our Class A common stock and the limited market liquidity for our securities could affect a holder's ability to sell at a price satisfactory to that holder.

***We are a "controlled company" within the meaning of NASDAQ rules and, as a result, we qualify for, and choose to rely on, exemptions from certain corporate governance requirements.***

Our controlling stockholder, Gato Investments LP, controls the majority of the voting power of all of our outstanding capital stock. As a result of the concentration of the voting rights in our Company, we are a "controlled company" within the meaning of the rules and corporate governance standards of NASDAQ. Under the NASDAQ rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain NASDAQ corporate governance requirements, including:

- the requirement that a majority of our board of directors consists of independent directors;

- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors;

- the requirement that we have a compensation committee that is composed entirely of independent directors; and

- the requirement for an annual performance evaluation of the nominating/corporate governance and compensation committees.

We have elected not to comply with the above corporate governance requirements. Accordingly, our stockholders are not afforded the same protections generally as stockholders of other NASDAQ-listed companies for so long as we remain a "controlled company" and rely upon such exemptions. The interests of our controlling stockholder may conflict with the interests of our other stockholders, and the concentration of voting power in such stockholder will limit our other stockholders' ability to influence corporate matters.

***Our controlling stockholder exercises significant influence over us and their interests in our Business may be different from the interests of our stockholders; future sales of substantial amounts of our Class A common stock may adversely affect our market price.***

Our controlling stockholder, Gato Investments LP, controls the majority of the voting power of all of our outstanding capital stock. The controlling stockholders' Class B common stock vote on a 10 to 1 basis with our Class A common stock, which means that each share of our Class B common stock has 10 votes and each share of our Class A common stock has 1 vote. All shares of our capital stock vote together as a single class. Accordingly, our controlling stockholder generally has the ability for the foreseeable future to influence the outcome of any of our corporate actions which require stockholder

approval, including, but not limited to, the election of directors, significant corporate transactions, such as a merger or other sale of the Company or the sale of all or substantially all of our assets. This concentrated voting control will limit your ability to influence corporate matters and could adversely affect the market price of our Class A common.

Our controlling stockholder may delay or prevent a change in control in our Business. In addition, the significant concentration of stock ownership may adversely affect the value of our Class A common stock due to a resulting lack of liquidity of our Class A common stock or a perception among investors that conflicts of interest may exist or arise. If our controlling stockholder sells a substantial amount of our Class A common stock (upon conversion of their Class B common stock, which may be converted at any time in their sole discretion) in the public market, or investors perceive that these sales could occur, the market price of our Class A common stock could be adversely affected.

The interests of our controlling stockholder, which has investments in other companies, may from time to time diverge from the interests of our other stockholders, particularly with regard to new investment opportunities. Our controlling stockholder is not restricted from investing in other businesses involving or related to programming, content, production and broadcasting. Our controlling stockholder may also engage in other businesses that compete or may in the future compete with our Business.

We have entered into a Registration Rights Agreement and joinders thereto with certain parties, including our controlling stockholder. If requested properly under the terms of the Registration Rights Agreement, certain of these stockholders have the right to require us to register the offer and sale of all or some of their Class A common stock (including upon conversion of their Class B common stock) under the Securities Act in certain circumstances and also have the right to include those shares in a registration initiated by us. If we are required to include the shares of capital stock held by these stockholders pursuant to these registration rights in a registration initiated by us, sales made by such stockholders may adversely affect the price of our Class A common stock and our ability to raise needed capital. In addition, if these stockholders exercise their demand registration rights and cause a large number of shares to be sold in the public market or demand that we include their shares for registration on a shelf registration statement, such sales or shelf registration may have an adverse effect on the market price of our Class A common stock.

Any other future sales of substantial amounts of our Class A common stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of our Class A common stock and impair our ability to raise capital through the sale of additional equity securities.

***We have a staggered board of directors and other anti-takeover provisions, which may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of our stockholders.***

Our amended and restated certificate of incorporation provides that our board of directors will be divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. As a result, at any annual meeting only a minority of the board of directors will be considered for election. Since this "staggered board" would prevent our stockholders from replacing a majority of our board of directors at any annual meeting, it may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of our stockholders. Some of the provisions of our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law could, together or separately, discourage potential acquisition proposals or delay or prevent a change in control. In particular, our board of directors is authorized to issue up to 50,000,000 shares of preferred stock with rights and privileges that might be senior to either class of our common stock and, without the consent of the holders of either class of our common stock.

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***Our dependence on subsidiaries for cash flow may negatively affect our Business.***

We are a holding company with no business operations of our own. Our only significant asset is, the outstanding capital stock and membership interests of our subsidiaries. We conduct, and expect to continue conducting, all of our business operations through our subsidiaries. Accordingly, our ability to pay our obligations is dependent upon dividends and other distributions from our subsidiaries to us. Although our Second Amended Term Loan Facility permits certain restricted payments from our subsidiaries to us to pay for our administrative expenses, corporate overhead, franchise taxes, public company costs, directors' fees and certain insurance premiums and deductibles, it restricts our subsidiaries ability to remit dividends to us in other instances at certain leverage ratios. Additionally, dividends to us from WAPA are also subject to certain local taxation. Consequently, our ability to pay dividends is limited by funds that our subsidiaries are permitted to dividend to us, and in certain instances, will subject us to certain tax liabilities.

## Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

We lease our headquarters at 4000 Ponce de Leon Blvd., Coral Gables, FL 33146. In 2016, we relocated our headquarters to a larger facility in Coral Gables. If necessary, we may, from time to time, lease additional facilities for our activities. The current lease is for a term of 89 months and runs through October 2023.

WAPA is headquartered in San Juan, Puerto Rico in an owned 66,500 square foot building located in one of the most affluent areas in San Juan. The building houses our state-of-the-art technology, television studios, and administrative offices. All of WAPA's news and local programs are produced at our production facility, which consists of four television studios, including the largest television studio in the Caribbean, fully equipped control rooms, digital video, audio, editing, post editing, and graphic production suites, and a scenery shop which produces all scenery and props for the local productions.

We own the property that houses our studios and offices in San Juan, Puerto Rico. We also lease the land for our transmission towers in Cayey, Puerto Rico, Jayuya, Puerto Rico and Maricao, Puerto Rico pursuant to long-term lease facilities. High sustained winds of Hurricane Maria caused one of our three transmission towers to fall, completely destroying the tower and the transmission equipment housed on the tower. Immediately following the storm, we were transmitting WAPA's signal via the multicast spectrum of another broadcast television network. During 2018, we entered into a long-term agreement to co-locate our antenna on another broadcast tower from which, we have been transmitting WAPA's signal as of November 1, 2018. Our headquarters at WAPA did not suffer any material damages from the impact of the hurricanes in 2017. WAPA's current facilities are adequate to meet our needs for the foreseeable future. If necessary, we may, from time to time, downsize current facilities or lease additional facilities for our activities.

The following table sets forth our principal places of business at December 31, 2018:

| Location | Description | Area (Square Feet) |
|---|---|---|
| Coral Gables, FL | Headquarters | 8,543 |
| San, Juan, Puerto Rico | Administrative Offices, TV Production | 66,500 |

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**Item 3. Legal Proceedings.**

From time to time, we or our subsidiaries may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties and determination as to the amount of the accrual required for such contingencies is highly subjective and requires judgments about future events. An adverse result in these or other matters may arise from time to time that may harm our Business. Neither we nor any of our subsidiaries are presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us or our subsidiaries, which may materially affect us.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Class A common stock is listed and traded on NASDAQ under the symbol "HMTV." There is no publicly traded market for our Class B common stock. At March 7, 2019, there were 19,710,855 shares of Class A common stock outstanding, and the closing sale price of our ordinary shares was $13.30. Also as of that date, we had approximately 27 and 4 ordinary shareholders of record of our Class A common stock and Class B common stock, respectively. This number does not include the stockholders for whom shares are held in a "nominee" or "street" name. We have not declared any dividends and we have no present intention to pay dividends on our Class A common stock or Class B common stock. Our Second Amended Term Loan Facility restricts our ability to declare dividends in certain situations.

**Price Range of our Class A Common Stock**

The table below sets forth the intra-day high and low sales prices per share of our Class A common stock for the periods indicated as reported on NASDAQ:

| | High | Low |
|---|---|---|
| **Fiscal Year ended December 31, 2018** | | |
| First Quarter | $ 12.20 | $ 10.50 |
| Second Quarter | $ 13.95 | $ 10.70 |
| Third Quarter | $ 14.20 | $ 11.30 |
| Fourth Quarter | $ 14.25 | $ 11.33 |

| | High | Low |
|---|---|---|
| **Fiscal Year ended December 31, 2017** | | |
| First Quarter | $ 11.95 | $ 10.75 |
| Second Quarter | $ 12.40 | $ 10.95 |
| Third Quarter | $ 13.20 | $ 11.75 |
| Fourth Quarter | $ 12.70 | $ 10.65 |

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth information with respect to compensation plans under which our equity securities are authorized for issuance as of December 31, 2018:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a) (b) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 2,910,000 | $ 11.62 | 2,676,204 |
| Equity compensation plans not approved by security holders | | | |
| Total | **2,910,000** | **$ 11.62** | **2,676,204** |

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On May 16, 2013, our board of directors approved the adoption of the Hemisphere Media Group, Inc. Amended and Restated 2013 Equity Incentive Plan (the "Equity Incentive Plan") pursuant to which incentive compensation and performance compensation awards may be provided to our employees, directors, officers, consultants or advisors or our subsidiaries or their respective affiliates. The Equity Incentive Plan authorizes the issuance of up to 7.2 million shares of our Class A common stock. The number of securities remaining available for issuance in column (b) of the table above reflects our issuance of certain shares of restricted Class A common stock in connection with grants authorized by our board of directors. The description of the Equity Incentive Plan above is qualified in its entirety by reference to the full text of the Equity Incentive Plan.

**Recent Sales of Unregistered Securities**

None.

**Company Purchases of Equity Securities**

Set forth below is the information concerning acquisitions of Hemisphere Media Group, Inc. Class A common stock by the Company during the three months ended December 31, 2018:

| Period(a) | Total Number of Shares Purchased(b) | Average Price Paid per Share(c) | Total Number of shares Purchased as Part of a Publicly Announced Program | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Program(d) |
|---|---|---|---|---|
| October 1, 2018 October 31, 2018 | 4,941 | $ 12.89 | 4,941 | $ 922,836 |
| November 1, 2018 November 30, 2018 | | $ | | $ 922,836 |
| December 1, 2018 December 31, 2018 | 22,554 | $ 12.22 | 22,554 | $ 647,334 |
| Total | 27,495 | $ 12.34 | 27,495 | |

(a) The stock repurchase plan was announced on June 20, 2017.

(b) The Board of Directors authorized the repurchase of up to $25 million of the Company's Class A common stock.

(c) Average Price Paid per Share includes broker commission of $0.02 per share.

(d) The plan expires on May 24, 2019.

The table above does not include the additional $25 million authorized for opportunistic share repurchases on August 15, 2018.

**Item 6. Selected Financial Data.**

Not applicable

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis summarizes our financial condition and operating performance and should be read in conjunction with our historical consolidated financial statements and notes thereto included above. Unless the context indicates otherwise, the terms the "Company," "Hemisphere," "we," "our" or "us" are used to refer to Hemisphere Media Group, Inc. and its consolidated subsidiaries.

Significant components of management's discussion and analysis of results of operations and financial condition include:

*Overview.* The overview section provides a summary of our business, operational divisions and business trends, outlook and strategy.

*Consolidated Results of Operations.* The consolidated results of operations section provides an analysis of our results on a consolidated basis for the year ended December 31, 2018 compared to the year ended December 31, 2017.

*Liquidity and Capital Resources.* The liquidity and capital resources section provides a discussion of our cash flows for the year ended December 31, 2018 compared to the year ended December 31, 2017

**OVERVIEW**

**Our Company**

We are a leading U.S. Spanish-language media company serving the fast growing and highly attractive U.S. Hispanic and Latin American markets. Headquartered in Miami, Florida, we own and operate a variety of media businesses, and hold minority interests in certain media properties. Our portfolio consists of:

*Cinelatino:* the leading Spanish-language cable movie network with over 21 million subscribers across the U.S., Latin America and Canada. Cinelatino is programmed with a lineup featuring the best contemporary films and original television series from Mexico, Latin America, and the United States. Driven by the strength of its programming and distribution, Cinelatino is the #2-Nielsen rated Spanish-language cable television entertainment network in the U.S. overall, based on coverage ratings.

*WAPA:* the leading broadcast television network and television content producer in Puerto Rico. WAPA has been the #1-rated broadcast television network in Puerto Rico since the start of Nielsen audience measurement nine years ago. WAPA is Puerto Rico's news leader and the largest local producer of news and entertainment programming, producing nearly 60 hours in the aggregate each week. Through its multicast signal, WAPA distributes WAPA Deportes, a leading sports television network in Puerto Rico, featuring Major League Baseball ("MLB"), National Basketball Association ("NBA") and professional sporting events from Puerto Rico. Additionally, we operate WAPA.TV, a leading news and entertainment website in Puerto Rico, featuring content produced by WAPA.

*WAPA America:* a cable television network serving primarily Puerto Ricans and other Caribbean Hispanics in the U.S. WAPA America's programming includes features news and entertainment programming produced by WAPA. WAPA America is distributed in the U.S. to over 4.4 million subscribers, excluding digital basic subscribers.

*Pasiones:* a cable television network dedicated to showcasing the most popular telenovelas and serialized dramas, distributed in the U.S. and Latin America. Pasiones features many of the best telenovelas licensed from top producers throughout the world, and is currently the highest rated cable television network devoted to telenovelas in prime time. Pasiones has over 20 million subscribers across the U.S. and Latin America.

*Centroamerica TV:* a cable television network targeting Central Americans, the third largest U.S. Hispanic group and the fastest growing segment of the U.S. Hispanic population. Centroamerica TV features the most popular news and entertainment from Central America, as well as soccer programming from the top professional soccer leagues in the region. Centroamerica TV is distributed in the U.S. to approximately 4.3 million subscribers.

*Television Dominicana:* a cable television network targeting Dominicans living in the U.S., the fourth largest U.S. Hispanic group. Television Dominicana features the most popular news and entertainment from the Dominican Republic and is distributed in the U.S. to approximately 2.3 million subscribers.

*Canal 1:* the #3-rated broadcast television network in Colombia. We own a 40% interest in Canal 1 in partnership with leading producers of news and entertainment content in Colombia. The partnership was awarded a 10-year renewable broadcast television concession in 2016. The partnership began operating Canal 1 on May 1, 2017 and launched a new programming lineup on August 14, 2017.

*Pantaya:* a cross-platform Spanish-language video subscription service that allows audiences to access many of the best and most current Spanish-language films and includes content from our movie library, as well as Pantelion's U.S. theatrical titles, Lionsgate's movie library, and Grupo Televisa's theatrical releases in Mexico. We own a 25% interest in Pantaya in partnership with Lionsgate. The service launched in August 2017.

*Snap Media:* a distributor of content to broadcast and cable television networks and OTT and SVOD platforms in Latin America. Snap will be responsible for the distribution of content owned and/or controlled by our networks, as well as content to be produced by the production joint venture between Snap Media and MarVista. On November 26, 2018, we acquired a 75% interest in Snap Media, and in connection with the acquisition, we entered into a joint venture with MarVista, a shareholder of Snap Media, to produce original movies and series.

*REMEZCLA:* a digital media company targeting English speaking and bilingual U.S. Hispanic millennials through innovative content. On April 28, 2017, we acquired a 25.5% interest in REMEZCLA.

Our two primary sources of revenues are advertising revenues and affiliate revenues. All of our Networks derive revenues from advertising. Advertising revenues are generated from the sale of advertising time, which is typically sold pursuant to advertising orders with advertisers providing for an agreed upon advertising commitment and price per spot. Our advertising revenues are tied to the success of our programming, including the popularity of our programming as measured by Nielsen. Our advertising is variable in nature and tends to reflect seasonal patterns of our advertisers' demand, which is generally greatest during the fourth quarter of each year, driven by the holiday buying season. In addition, Puerto Rico's political election cycle occurs every four years and we benefit from increased advertising sales in an election year. For example, in 2016, we experienced higher advertising sales as a result of political advertising spending during the 2016 gubernatorial elections. The next election in Puerto Rico will be in 2020.

All of our Networks receive fees paid by distributors, including cable, satellite and telecommunications service providers. These revenues are generally based on a per subscriber fee pursuant to multi-year contracts, commonly referred to as "affiliation agreements," which typically provide for annual rate increases. The specific affiliate revenues we earn vary from period to period, distributor to distributor and also vary among our Networks, but are generally based upon the number of each distributor's paying subscribers who receive our Networks. The terms of certain non-U.S. affiliation agreements provide for payment of a fixed contractual monthly fee. Changes in affiliate revenues are primarily derived from changes in contractual affiliation rates charged for our Networks and changes in the number of subscribers. Accordingly, we continually review the quality of our programming to ensure that it is maximizing our Networks' viewership and giving our Networks' subscribers a premium, high-value experience. The continued growth in our affiliate revenues will, to a certain extent, be dependent on the growth in subscribers of the cable, satellite and telecommunication service providers distributing our Networks, new system launches and continued carriage of our

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channels by our distribution partners. Our revenues also benefit from contractual rate increases stipulated in most of our affiliation agreements.

In 2018, we generated approximately 93% of our net revenues from the United States. For the years ended December 31, 2018 and 2017, we generated $136.2 million and $114.2 million, respectively, from the United States. For the years ended December 31, 2018 and 2017, we generated $10.9 million and $10.3 million, respectively, from outside the United States.

WAPA has been the #1-rated broadcast television network in Puerto Rico since the start of Nielsen audience measurement nine years ago and management believes it is highly valued by its viewers and Distributors. WAPA is distributed by all pay-TV distributors in Puerto Rico and has been successfully growing affiliate revenues. WAPA's primetime household rating in 2018 was four times higher than the most highly rated English-language U.S. broadcast network in the U.S., NBC, and higher than the combined ratings of CBS, NBC, ABC, FOX and the CW. As a result of its ratings success since the start of Nielsen audience measurement, management believes WAPA is well positioned for future growth in affiliate revenues, similar to the growth in affiliate revenues that the four major U.S. networks (ABC, CBS, NBC and Fox) have experienced in the U.S.

WAPA America, Cinelatino, Pasiones, Centroamerica TV and Television Dominicana occupy a valuable and unique position, as they are among the small group of Hispanic cable networks to have achieved broad distribution in the U.S. As a result, management believes our U.S. networks are well-positioned to benefit from growth in both the growing national advertising spend targeted at the highly sought-after U.S. Hispanic cable television audience, and significant growth in subscribers, as the U.S. Hispanic population continues its long-term growth.

Hispanics represent over 18% of the total U.S. population and over 10% of the total U.S. buying power, but the aggregate media spend targeted at U.S. Hispanics significantly under-indexes both of these metrics. As a result, advertisers have been allocating a higher proportion of marketing dollars to the Hispanic market, but U.S. Hispanic cable advertising still under-indexes relative to its consumption.

Management expects our U.S. networks to benefit from significant growth in subscribers, as the U.S. Hispanic population continues its long-term growth. The U.S. Census Bureau estimated that over 58 million Hispanics resided in the United States in 2017, representing an increase of more than 23 million people between 2000 and 2017, and that number is projected to grow to 75 million by 2030. U.S. Hispanic television households grew by 26% during the period from 2010 to 2019, from 12.9 million households to 16.2 million households. Similarly, Hispanic pay-TV subscribers increased 4% since 2010 to 11.2 million subscribers in 2019. The continued long-term growth of Hispanic television households and pay-TV subscribers creates a significant opportunity for all of our Networks.

Similarly, management expects Cinelatino and Pasiones to benefit from significant growth in Latin America. Fueled by a sizeable and growing population, a strong macroeconomic backdrop, rising disposable incomes and investments in network infrastructure resulting in improved service and performance, pay-TV subscribers in Latin America (excluding Brazil) grew by 32% from 2013 to 2018, and are projected to grow an additional 10 million from 57 million in 2018 to 67 million by 2022 representing projected growth of 18%. Furthermore, Cinelatino and Pasiones are each presently distributed to only 30% and 28%, respectively, of total pay-TV subscribers throughout Latin America (excluding Brazil).

MVS, one of our stockholders, provides operational, technical and distribution services to Cinelatino pursuant to several agreements. An agreement that had granted MVS the non-exclusive right to distribute the service throughout Latin America was amended effective January 1, 2017, pursuant to which MVS retained the non-exclusive right to distribute Cinelatino to third party distributors in Mexico, and we assumed the distribution of Cinelatino to third party distributors elsewhere in Latin America.

In November 2018, an agreement between Cinelatino and Dish Mexico (an affiliate of MVS), pursuant to which Dish Mexico distributes Cinelatino, and pays subscriber fees to Cinelatino, was renewed and extended until February 28, 2022.

*Hurricanes Irma and Maria*

On September 6, 2017, Hurricane Irma resulted in a loss of power to over 70% of the homes in Puerto Rico. Two weeks later, on September 20, 2017, Hurricane Maria made landfall in Puerto Rico causing widespread devastation and loss of power to 100% of the island. Additionally, the high sustained winds of Hurricane Maria caused one of our three transmission towers to fall, completely destroying the tower and the transmission equipment housed on the tower. Immediately following the storm, we were transmitting WAPA's signal via the multicast spectrum of another broadcast television network. During 2018, we entered into a long-term agreement to co-locate our antenna on another broadcast tower from which, we have been transmitting WAPA's signal as of November 1, 2018.

The back-to-back hurricanes in Puerto Rico adversely affected WAPA's business from September through the end of 2017, and the negative effects continued on into 2018. While advertising revenue started to normalize in the second quarter, our results were negatively impacted by the lingering effects of Hurricane Maria in 2018. In the fourth quarter of 2018, we received $5.8 million in insurance proceeds on our business interruption policies. There can be no assurances of the timing and amount of additional proceeds we may recover under our insurance policies.

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**CONSOLIDATED RESULTS OF OPERATIONS**

**Comparison of Consolidated Operating Results for the Years Ended December 31, 2018 and December 31, 2017** (amounts in thousands)

| | Years Ended December 31, | | $ Change Favorable/ (Unfavorable) | % Change Favorable/ (Unfavorable) |
|---|---|---|---|---|
| | 2018 | 2017 | | |
| **Net revenues** | **$ 147,079** | **$ 124,464** | **22,615** | **18.2%** |
| **Operating expenses:** | | | | |
| Cost of revenues | 42,174 | 39,965 | **(2,209)** | (5.5)% |
| Selling, general and administrative | 44,499 | 39,437 | **(5,062)** | (12.8)% |
| Depreciation and amortization | 16,081 | 16,228 | **147** | 0.9% |
| Other expenses | 1,473 | 3,501 | **2,028** | 57.9% |
| (Gain) from FCC spectrum repack and other | (1,880) | (23) | **1,857** | NM |
| Total operating expenses | 102,347 | 99,108 | **(3,239)** | (3.3)% |
| Operating income | 44,732 | 25,356 | **19,376** | 76.4% |
| Other (expense) income: | | | | |
| Interest expense, net | (12,132) | (10,905) | **(1,227)** | (11.3)% |
| Loss on equity method investments | (35,206) | (11,885) | **(23,321)** | NM |
| Gain from insurance proceeds | 2,080 | 3,250 | **(1,170)** | (36.0)% |
| Loss on impairment of assets | | (546) | **546** | NM |
| Total other expense | (45,258) | (20,086) | **(25,172)** | (125.3)% |
| (Loss) income before income taxes | (526) | 5,270 | **(5,796)** | (110.0)% |
| Income tax expense | (10,271) | (18,706) | **8,435** | 45.1% |
| **Net loss** | **(10,797)** | **(13,436)** | **2,639** | 19.6% |
| Net income attributable to non-controlling interest | (109) | | **(109)** | NM |
| **Net loss available to Hemisphere Media Group** | **$ (10,906)** | **$ (13,436)** | **2,530** | 18.8% |

NM = not meaningful

**Net Revenues**

Net revenues were $147.1 million for the twelve months ended December 31, 2018, an increase of $22.6 million, or 18%, as compared to net revenues of $124.5 million for the same period in 2017. Advertising revenue increased $11.7 million, or 24%, benefitting from a favorable comparison with the prior year, which was negatively impacted by Hurricane Maria in September 2017, growth in ad sales at our cable networks, and the impact of the current period adoption of the new revenue recognition standard, which required certain costs that were netted against revenue in prior periods to be reclassified to operating expenses, and as a result increased advertising revenue by $3.8 million. Affiliate revenue increased $3.5 million, or 5%, due to rate increases and subscriber growth. Other revenue increased $7.4 million primarily due to insurance proceeds of $5.8 million received on our business interruption policies in connection with the disruptions caused by Hurricanes Irma and Maria

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to our business in Puerto Rico, as well as, higher content licensing fees, and revenue contributed by Snap Media, which was acquired in November 2018.

| | Subscribers(a) (amounts in thousands) | |
|---|---|---|
| | **December 31, 2018** | **December 31, 2017** |
| **U.S. Cable Networks:** | | |
| WAPA America(b) | 4,417 | 4,362 |
| Cinelatino | 4,639 | 4,424 |
| Pasiones | 4,360 | 4,450 |
| Centroamerica TV | 4,276 | 4,127 |
| Television Dominicana | 2,273 | 1,876 |
| **Total** | **19,965** | **19,239** |
| **Latin America Cable Networks:** | | |
| Cinelatino | 16,769 | 16,087 |
| Pasiones | 15,958 | 14,776 |
| **Total** | **32,727** | **30,863** |

(a) Amounts presented are based on most recent remittances received from our Distributors as of the respective dates shown above, which are typically two months prior to the dates shown above.

(b) Excludes digital basic subscribers.

**Operating Expenses**

*Cost of Revenues:* Cost of revenues consists primarily of programming and production costs, programming amortization and distribution costs. For the year ended December 31, 2018, cost of revenues were $42.2 million, an increase of $2.2 million, or 6%, compared to $40.0 million for the year ended December 31, 2017. The increase was due to incremental expenses of $0.7 million incurred in 2018 related to Hurricane Maria, primarily tower rental costs to maintain transmission of WAPA's signal in Puerto Rico, the current period adoption of the new revenue recognition standard, which resulted in an increase in costs of $1.3 million, and the acquisition of certain programming rights that we did not own in 2017.

*Selling, General and Administrative:* Selling, general and administrative expenses consist principally of promotion, marketing and research, stock-based compensation, employee costs, occupancy costs and other general administrative costs. For the year ended December 31, 2018, selling, general and administrative expenses increased $5.1 million, or 13%, in part due to the current period adoption of the new revenue recognition standard, which required certain costs that were netted against revenue in prior periods to be reclassified and as a result increased selling, general and administrative expenses of $2.5 million. The increase was also due to higher personnel expenses, increased marketing expenses and higher insurance costs.

*Depreciation and Amortization:* Depreciation and amortization expense consists of depreciation of fixed assets and amortization of intangibles. For the year ended December 31, 2018, depreciation and amortization expense decreased $0.1 million, due to the expiration of the useful lives of certain fixed assets, which were reflected in depreciation expense in a portion of the prior year period.

*Other Expenses:* Other expenses include legal and financial advisory fees, and other fees incurred in connection with acquisition and corporate finance activities, including debt and equity financings. For the year ended December 31, 2018, other expenses decreased $2.0 million primarily due to costs

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incurred in connection with the refinancing of our Term Loan Facility in the prior year, as well as, lower costs incurred in connection with acquisition and investment activity

*Gain from FCC Spectrum Repack and Other:* For the year ended December 31, 2018, was $1.9 million primarily related to the reimbursement of $1.5 million from the FCC for equipment purchases required as a result of the FCC mandated spectrum repack, and an incentive payment of $0.3 million for vacating spectrum earlier than required in connection with the mandated channel repositioning of WAPA's signal in Puerto Rico.

**Other (expense) income, net**

*Interest Expense, net:* Interest expense for the year ended December 31, 2018, increased $1.2 million, or 11%. The increase was due to higher average interest rates, reflecting the increase in LIBOR rates, offset in part by lower average principal debt balance.

*Loss on Equity Method Investments:* Loss on equity method investments for the year ended December 31, 2018, increased $23.3 million. The increase was due to the full year operational activity in the current year compared with limited operational activity in the prior year. For more information, see Note 7, "Equity method investments" of Notes to Consolidated Financial Statements, included in this Annual Report.

*Gain from Insurance Proceeds:* Gain from insurance proceeds for the year ended December 31, 2018 was $2.1 million and reflects proceeds received in connection with our property insurance policies covering equipment damaged during Hurricane Maria. In 2017, we received insurance proceeds of $3.3 million. The decrease was due to the timing of insurance policy recoveries. See Note 5, "Property Plant and Equipment" of Notes to Consolidated Financial Statements, included in this Annual Report.

*Loss on Impairment of Assets:* Loss on impairment of assets for the year ended December 31, 2018, decreased $0.5 million related to the impairment of assets damaged during Hurricane Maria in 2017. There was no impairment of assets in 2018.

**Income Tax Expense**

For the year ended December 31, 2018, income tax expense decreased $8.4 million. The decrease in income taxes is due primarily to the Tax Cuts and Jobs Act, enacted in December 2017, which amended the Internal Revenue Code and lowered the U.S. Corporate Federal Tax rate, and as a result, reduced the forecasted opportunity for the Company to utilize foreign tax credits created by income taxes paid in Puerto Rico. This resulted in a valuation allowance of our net deferred tax assets, which increased income tax expense by $4.1 million and $13.6 million in 2018 and 2017, respectively. For more information, see Note 8, "Income Taxes" of Notes to Consolidated Financial Statements, included in this Annual Report.

**Net Loss**

Net loss for the year ended December 31, 2018, was $10.8 million, compared to net loss of $13.4 million in the comparable period in 2017.

**Net Income Attributable to Non-controlling Interest**

Net income attributable to non-controlling interest for the year ended December 31, 2018, was $0.1 million related to the 25% interest in Snap Media held by minority shareholders. Snap Media was acquired in November 2018.

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**Net Loss Available to Hemisphere Media Group**

Net loss available to Hemisphere Media Group for the year ended December 31, 2018, was $10.9 million, compared to $13.4 million in the comparable period in 2017.

**LIQUIDITY AND CAPITAL RESOURCES**

***Sources and Uses of Cash***

Our principal sources of cash are cash on hand, and cash flows from operating activities. As of December 31, 2018, the Company had $94.5 million of cash on hand. Our primary uses of cash include the production and acquisition of programming, operational costs, personnel costs, equipment purchases, principal and interest payments on our outstanding debt and income tax payments, and cash may be used to fund investments, acquisitions and repurchases of common stock.

On June 20, 2017, the Company announced a stock repurchase program. Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases, privately negotiated transactions at prevailing prices, subject to stock price, business and market conditions and other factors. As of December 31, 2018, the total amount authorized under the stock repurchase program was $25 million, and the Company had $0.6 million of remaining authorization for future repurchases under the existing stock repurchase program, which will expire on May 24, 2019. On August 15, 2018, an additional $25 million was authorized for opportunistic share repurchases.

Management believes cash on hand and cash flow from operations will be sufficient to meet our current contractual financial obligations and to fund anticipated working capital and capital expenditure requirements for existing operations. Our current financial obligations include maturities of debt, operating lease obligations and other commitments from the ordinary course of business that require cash payments to vendors and suppliers.

***Cash Flows***

| | 2018 | 2017 |
|---|---|---|
| *Amounts in thousands* | | |
| Cash provided by (used in): | | |
| Operating activities | $ 36,790 | $ 25,711 |
| Investing activities | (61,625) | (39,232) |
| Financing activities | (4,986) | (25,270) |
| Net (decrease) increase in cash | $ (29,821) | $ (38,791) |

***Comparison for the Year Ended December 31, 2018 and December 31, 2017***

**Operating Activities**

Cash provided by operating activities is primarily driven by our net income, adjusted for non-cash items and changes in working capital. Non-cash items consist primarily of depreciation of property and equipment, amortization of intangibles, programming amortization, amortization of deferred financing costs, stock-based compensation expense, deferred taxes and provision for bad debts.

Net cash provided by operating activities for the year ended December 31, 2018 was $36.8 million, an increase of $11.1 million, as compared to $25.7 million in the same period in 2017, due primarily to a $9.1 million increase in non-cash items and a $2.6 million decrease in net loss, offset by a $0.6 million decrease in net working capital. Non-cash items increased primarily as a result of an increase in loss on equity investments of $23.3 million, a decrease in gain on insurance proceeds of $1.2 million, and an

increase in program amortization of $0.7 million, partially offset by a decrease in deferred taxes of $13.4 million, gain from FCC spectrum repack of $1.5 million, a decrease in loss on impairment of fixed assets of $0.5 million, and a decrease in bad debt expense of $0.3 million.

Working capital decreased primarily as a result of an increase in accounts receivable of $14.6 million due to the growth in net revenue in the fourth quarter as compared to the comparable period in the prior year, which was adversely impacted by Hurricane Maria, an increase in programming rights $4.2 million, a decrease in other liabilities of $2.1 million, a decrease in accounts payable $1.1 million, and a decrease in net due to related parties of $0.9 million, partially offset by a decrease in prepaid taxes and other assets of $11.7 million, an increase in other accrued expenses of $6.3 million, an increase in income taxes payable of $3.8 million, and an increase in programming rights payable of $0.5 million.

**Investing Activities**

Net cash used in investing activities for the year ended December 31, 2018 was $61.6 million, as compared to net cash used of $39.2 million in the same period in 2017. The increase is due to an increase in funding of equity investments of $13.8 million, an increase in capital expenditures of $8.1 million, a decrease in insurance proceeds received on our property and casualty policies of $1.2 million, and the Snap Media acquisition of $0.8 million, which were partially offset by proceeds received from the FCC related to the spectrum repack of $1.5 million.

**Financing Activities**

For the year ended December 31, 2018, net cash used in financing activities was $5.0 million, as compared to net cash used of $25.3 million in the prior year. The decrease was primarily due to a decline in repurchases of common stock of $19.4 million and fees incurred in the prior year in connection with the refinancing of the Second Amended Term Loan Facility of $1.1 million.

***Discussion of Indebtedness***

On July 31, 2014, certain of our subsidiaries (the "Borrowers") entered into an amended credit agreement providing for a $225.0 million senior secured term loan B facility (the "Term Loan Facility"), which was due to mature on July 30, 2020. Pricing on the Term Loan Facility was set at LIBOR plus 400 basis points (subject to a LIBOR floor of 1.00%).

On February 14, 2017 (the "Closing Date"), the Borrowers amended the Term Loan Facility (the "Second Amended Term Loan Facility"). The Second Amended Term Loan Facility provides for a $213.3 million senior secured term loan B facility, which matures on February 14, 2024. The Second Amended Term Loan Facility, bears interest at the Borrowers' option of either (i) LIBOR plus a margin of 3.50% (decreased from a margin of 4.00% under the Term Loan Facility) or (ii) or an Alternate Base Rate ("ABR") plus a margin of 2.50% (decreased from a margin of 3.00% under the Term Loan Facility). There is no LIBOR floor (a decrease from a LIBOR floor of 1.00% under the Term Loan Facility). The Second Amended Term Loan Facility, among other terms, provides for an uncommitted incremental loan option (the "Incremental Facility") allowing for increases for borrowings under the Second Amended Term Loan Facility and borrowing of new tranches of term loans, up to an aggregate principal amount equal to (i) $65.0 million plus (ii) an additional amount (the "Incremental Facility Increase") provided, that after giving effect to such Incremental Facility Increase (as well as any other additional term loans), on a pro forma basis, the First Lien Net Leverage Ratio (as defined in the Second Amended Term Loan Facility) for the most recent four consecutive fiscal quarters does not exceed 4.00:1.00 and the Total Net Leverage Ratio (as defined in the Second Amended Term Loan Facility) for the most recent four consecutive fiscal quarters does not exceed 6.00:1.00. The First Lien Net Leverage Ratio and the Total Net Leverage Ratio each cap the cash netted against debt up to a

maximum amount of $60.0 million (increased from $45.0 million under the Term Loan Facility). Additionally, the Second Amended Term Loan Facility also provides for an uncommitted incremental revolving loan option (the "Incremental Revolving Facility") allowing for an aggregate principal amount of up to $30.0 million, which will be secured on a *pari passu* basis by the collateral securing the Second Amended Term Loan Facility.

The Second Amended Term Loan Facility requires the Borrowers to make amortization payments (in quarterly installments) equal to 1.00% per annum with any remaining amount due at final maturity. The Second Amended Term Loan Facility principal payments commenced on March 31, 2017, with a final installment due on February 14, 2024. Voluntary prepayments are permitted, in whole or in part, subject to certain minimum prepayment requirements.

In addition, pursuant to the terms of the Second Amended Term Loan Facility, within 90 days after the end of each fiscal year, the Borrowers are required to make a prepayment of the loan principal in an amount equal to a percentage of the excess cash flow of the most recently completed fiscal year. Excess cash flow is generally defined as net income plus depreciation and amortization expense, less mandatory prepayments of the term loan, income taxes and capital expenditures, and adjusted for the change in working capital. The percentage of the excess cash flow used to determine the amount of the prepayment of the loan declines from 50% to 25%, and again to 0% at lower leverage ratios. Pursuant to the terms of the Second Amended Term Loan Facility, our net leverage ratio was 2.5x at December 31, 2018, which corresponds to an excess cash flow percentage of 0% and therefore, no excess cash flow payment will be required to be paid in 2019.

In accordance with *Accounting Standards Codification ("ASC") 470 Debt*, the refinancing arrangement was deemed a modification of the Term Loan Facility and as such, an additional $1.1 million of original issue discount ("OID") incurred in connection with the Second Amended Term Loan Facility was added to the existing OID. As of December 31, 2018, the OID balance was $1.7 million, net of accumulated amortization of $1.8 million and was recorded as a reduction to the principal amount of the Second Amended Term Loan Facility outstanding as presented on the consolidated balance sheet and will be amortized as a component of interest expense over the term of the Second Amended Term Loan Facility. Financing costs of $1.4 million incurred in connection with the Second Amended Term Loan Facility were expensed in the period in accordance with *ASC 470 Debt* and were included in Other expenses in the consolidated statement of operations at December 31, 2017. In accordance with *ASU 2015-15 Interest Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements,* deferred financing fees of $1.3 million, net of accumulated amortization of $2.0 million, are presented as a reduction to the Second Amended Term Loan Facility outstanding at December 31, 2018 as presented on the consolidated balance sheet, and will be amortized as a component of interest expense over the term of the Second Amended Term Loan Facility.

**Contractual Obligations**

Not applicable.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet financing arrangements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements included in the Annual Report on Form 10-K and accompanying notes. Management considers an accounting policy to be critical if it is important to our financial

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condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by management and the related disclosures have been reviewed with the Audit Committee of our Board of Directors. We consider policies relating to the following matters to be critical accounting policies:

- Revenue recognition
- Valuation of goodwill and intangible assets
- Amortization and impairment of programming rights
- Income taxes
- Equity-based compensation

For an in-depth discussion of each of our significant accounting policies, including our critical accounting policies and further information regarding the estimates and assumptions involved in their application, see Note 1, "Nature of Business and Significant Accounting Policies" of Notes to Consolidated Financial Statements included in this Annual Report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable

**Item 8. Financial Statements.**

The response to this item is provided in this Annual Report on Form 10-K under Item 15 Exhibits, Financial Statements and Schedules and is incorporated herein by reference.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated our disclosure controls and procedures, as of December 31, 2018. Our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2018, our disclosure controls and procedures were effective to ensure that all information required to be disclosed is recorded, processed, summarized and reported within the time periods specified, and that information required to be filed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, to allow timely decisions regarding required disclosure. As permitted by SEC guidance for newly acquired businesses, management's assessment of the Company's disclosure controls and procedures did not include an assessment of those disclosure controls and procedures of SNAP Media that are subsumed by internal control over financial reporting. SNAP Media accounted for less than 2% of consolidated total assets as of December 31, 2018, and less than 1% of consolidated total revenues for the year ended on December 31, 2018.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be

considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error and mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

*Changes in Internal Controls*

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

*Management's Annual Report on Internal Control Over Financial Reporting*

Management's report on internal control over financial reporting is set forth in our Consolidated Financial Statements included on page F-2 under the caption "Management's Report on Internal Control over Financial Reporting," which is incorporated herein by reference.

*Attestation Report of the Independent Registered Public Accounting Firm*

The effectiveness of our internal control over financial reporting, has been audited by RSM US LLP, an independent registered public accounting firm, as stated in their report, which is included in our Consolidated Financial Statements on page F-4 under the caption "Report of Independent Registered Public Accounting Firm," which is incorporated herein by reference.

**Item 9B. Other Information.**

None.

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

### Item 11. Executive Compensation.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

### Item 13. Certain Relationships and Related Transactions, and Director Independence.

### Item 14. Principal Accounting Fees and Services.

The information required by Items 10, 11, 12, 13 and 14 will be furnished (and are hereby incorporated by reference) by an amendment hereto or pursuant to a definitive proxy statement pursuant to Regulation 14A that will contain such information. Notwithstanding the foregoing, information appearing in the section "Audit Committee Report" shall not be deemed to be incorporated by reference in this report.

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## PART IV

### Item 15. Exhibits, Financial Statements and Schedules.

(a) List of Documents Filed as part of this Form 10-K

1) Financial Statements

See Index to Consolidated Financial Statements on Page F-1 following this Part IV.

2) Financial Statement Schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(b) *List of Exhibits.* The following is a list of exhibits filed, furnished or incorporated by reference as a part of this Annual Report on Form 10-K.

| Exhibit No. | Description of Exhibits |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of Hemisphere Media Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 19, 2017 (File No. 001-35886)). |
| 3.2 | Amended and Restated Bylaws of Hemisphere Media Group, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on September 7, 2016 (File No. 001-35886)). |
| 4.1 | Specimen Hemisphere Class A common stock Certificate (incorporated herein by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-4 filed with the Commission on March 11, 2013 (File No. 333-186210)). |
| 4.2 | Specimen Hemisphere Class B common stock Certificate (incorporated herein by reference to Exhibit 4.2 to Amendment No. 2 to the Company's Registration Statement on Form S-4 filed with the Commission on March 11, 2013 (File No. 333-186210)). |
| 4.3 | Hemisphere Media Group, Inc. Amended and Restated 2013 Equity Incentive Plan (incorporated herein by reference to Appendix A to the Company's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders filed with the Commission on April 6, 2016 (File No. 001-35886)). |
| 10.1 | Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to Amendment No. 3 to the Company's Registration Statement on Form S-4 filed with the Commission on March 15, 2013 (File No. 333-186210)). |
| 10.2 | Registration Rights Agreement by and among the Company and the parties identified therein, dated January 22, 2013 (incorporated herein by reference to Exhibit 10.2 to Amendment No. 2 to the Company's Registration Statement on Form S-4 filed with the Commission on March 11, 2013 (File No. 333-186210)). |

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| Exhibit No. | Description of Exhibits |
|---|---|
| 10.3 | Credit Agreement, dated as of July 30, 2013, by and among Hemisphere Media Holdings, LLC, a Delaware limited liability company, InterMedia Español, Inc., a Delaware corporation, the lenders party thereto from time to time, Deutsche Bank Securities Inc. as joint lead arranger and lead bookrunner, GE Capital Markets, Inc., as joint lead arranger, Deutsche Bank AG New York Branch, as administrative agent and collateral agent, General Electric Capital Corporation, as syndication agent, and the other parties named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2013 (File No. 001-35886)). |
| 10.4 | Amendment No. 1 to the Credit Agreement, dated as of July 31, 2014, by and among Hemisphere Media Holdings, LLC, a Delaware limited liability company, InterMedia Español, Inc., a Delaware corporation, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as successor administrative agent and collateral agent, J.P. Morgan Securities LLC as joint lead arranger and joint bookrunner, Deutsche Bank Securities Inc., as joint lead arranger, joint bookrunner and syndication agent and CIT Capital Securities LLC as documentation agent, and the other parties named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2014 (File No. 001-35886)). |
| 10.5 | Amendment No. 2 to the Credit Agreement, dated as of February 14, 2017, by and among Hemisphere Media Holdings, LLC, a Delaware limited liability company, InterMedia Español, Inc., a Delaware corporation, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, JPMorgan Chase Bank, N.A., Deutsche Bank Securities Inc. and Royal Bank of Canada as joint lead arrangers and joint bookrunners, CIT Capital Securities LLC as documentation agent, and the other parties named therein (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 14, 2017 (File No. 001-35886)). |
| 10.6 | Guaranty Agreement, dated as of July 30, 2013, by and among HMTV, LLC, a Delaware limited liability company, Hemisphere Media Holdings, LLC, a Delaware limited liability company, InterMedia Español, Inc., a Delaware corporation, the subsidiary guarantors from time to time party thereto and Deutsche Bank AG New York Branch as administrative agent (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2013 (File No. 001-35886)). |
| 10.7 | Stockholders Agreement, dated as of September 6, 2016, by and among the Company, Gato Investments LP, InterMedia Hemisphere Roll-Over, L.P., InterMedia Partners VII, L.P., Gemini Latin Holdings, LLC, Peter M. Kern and Searchlight II HMT, L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on September 7, 2016 (File No. 001-35886)). |
| 10.8 | Amendment No. 1 to Stockholders Agreement and Waiver of Minimum Condition, dated as of October 21, 2016, by and among Hemisphere Media Group, Inc., Gato Investments LP, InterMedia Hemisphere Roll-Over L.P., InterMedia Partners VII, L.P., Gemini Latin Holdings, LLC, Peter M. Kern, an individual, and Searchlight II HMT, L.P. (incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Commission on October 24, 2016 (File No. 001-35886)). |

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| Exhibit No. | Description of Exhibits |
| --- | --- |
| 10.9 | Form of Nonqualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2017 (File No. 001-35886)). |
| 10.10 | Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2017 (File No. 001-35886)). |
| 10.11 | Form of Executive Nonqualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2017 (File No. 001-35886)). |
| 10.12 | Form of Executive Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2017 (File No. 001-35886)). |
| 10.13 | Amended and Restated Employment Agreement, dated as of October 26, 2016, by and between Hemisphere Media Group, Inc. and Alan J. Sokol (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on October 28, 2016 (File No. 001-35886)). |
| 10.14 | Amended and Restated Employment Agreement, dated as of October 26, 2016, by and between Hemisphere Media Group, Inc. and Craig D. Fischer (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on October 28, 2016 (File No. 001-35886)). |
| 10.15 | Amended and Restated Consulting Agreement, dated as of November 16, 2016, by and between the Company and James M. McNamara (incorporated herein by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2017 (File No. 001-35886)). |
| 10.16 | Amended and Restated Employment Agreement, dated as of October 26, 2016, by and between Hemisphere Media Group, Inc. and Alex J. Tolston (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the Commission on October 28, 2016 (File No. 001-35886)). |
| 10.17 | Offer Letter, dated December 1, 2015, by and between the Company and Lucia Ballas-Traynor (incorporated herein by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the Commission on March 14, 2016 (File No. 001-35886)). |
| 10.18 | Employment Agreement, dated November 29, 2017, by and between the Company, Televicentro of Puerto Rico, LLC and Javier Maynulet (incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the Commission on March 15, 2018 (File No. 001-35886)). |
| 10.19* | Offer Letter, dated October 5, 2018, by and between the Company and Jennifer Lopez-Gottardi. |
| 21.1* | Subsidiaries of the Company. |
| 23.1* | Consent of RSM US LLP, independent accountants for the Company. |
| 31.1* | Certification of CEO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

| Exhibit No. | Description of Exhibits |
| --- | --- |
| 31.2* | Certification of CFO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of CEO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of CFO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. |
| 101.DEF* | XBRL Taxonomy Definition Linkbase. |

* Filed herewith

** Furnished herewith

A signed original of the written statement required by Section 906 has been provided to the Company and will be retained by the Company and forwarded to the SEC or its staff upon request.

Indicates management contract or compensatory plan, contract or arrangement.

**Item 16. Form 10-K Summary.**

None.

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**SIGNATURES**

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

**HEMISPHERE MEDIA GROUP, INC.**
**(Registrant)**

Dated: March 12, 2019 By: /s/ ALAN J. SOKOL

Alan J. Sokol
*Chief Executive Officer and President*
*(Principal Executive Officer)*

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.

| Signature | Title | Date |
| --- | --- | --- |
| /s/ PETER M. KERN<br>Peter M. Kern | Chairman of the Board and Director | March 12, 2019 |
| /s/ ALAN J. SOKOL<br>Alan J. Sokol | Chief Executive Officer and President (Principal Executive Officer) and Director | March 12, 2019 |
| /s/ CRAIG D. FISCHER<br>Craig D. Fischer | Chief Financial Officer (Principal Financial and Accounting Officer) | March 12, 2019 |
| /s/ LEO HINDERY, JR.<br>Leo Hindery, Jr. | Director | March 12, 2019 |
| /s/ JAMES M. MCNAMARA<br>James M. McNamara | Director | March 12, 2019 |
| /s/ ERNESTO VARGAS GUAJARDO<br>Ernesto Vargas Guajardo | Director | March 12, 2019 |
| /s/ NINA TASSLER<br>Nina Tassler | Director | March 12, 2019 |

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| Signature | Title | Date |
| --- | --- | --- |
| /s/ ERIC C. NEUMAN<br>Eric C. Neuman | Director | March 12, 2019 |
| /s/ JOHN ENGELMAN<br>John Engelman | Director | March 12, 2019 |
| /s/ ANDREW S. FREY<br>Andrew S. Frey | Director | March 12, 2019 |
| /s/ ERIC ZINTERHOFER<br>Eric Zinterhofer | Director | March 12, 2019 |

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Hemisphere's management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The 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 GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the 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.

As required by Section 404 of the Sarbanes Oxley Act of 2002, management assessed the effectiveness of Hemisphere Media Group, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018. Management's assessment is based on the criteria for effective control over financial reporting described in *Internal Control  Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based upon our assessment and those criteria, management determined that Company's internal control over financial reporting was effective as of December 31, 2018.

The scope of management's assessment of the effectiveness of the Company's internal control over financial reporting included all of the Company's consolidated operations except for the operations of Snap Media, which the Company acquired 75% interest on November 26, 2018. The Snap Media operations represents less than 2% of the Company's consolidated total assets and less than 1% of the Company's consolidated total revenues as of and for the year ended December 31, 2018. This exclusion is in accordance with the Securities and Exchange Commission's interpretative guidance that an assessment of a recently acquired business may be omitted from our scope in the year of acquisition. See Note 4, "Snap Media Acquisition" of Notes to Consolidated Financial Statements for more information regarding the Company's acquisition of Snap Media.

The effectiveness of our internal control over financial reporting has been audited by RSM US LLP, an independent registered public accounting firm, as stated in their report, which is included in our Consolidated Financial Statements on page F-3 under the caption "Report of Independent Registered Public Accounting Firm."

Date: March 12, 2019

BY:

| /s/ ALAN J. SOKOL | /s/ CRAIG D. FISCHER |
|---|---|
| Alan J. Sokol<br>President and Chief Executive Officer | Craig D. Fischer<br>Chief Financial Officer |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Hemisphere Media Group Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Hemisphere Media Group Inc. and its subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity and cash flows for each of the two years ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 12, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2008.

Miami, Florida
March 12, 2019

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Hemisphere Media Group Inc.

**Opinion on the Internal Control Over Financial Reporting**

We have audited Hemisphere Media Group Inc. and its subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated March 12, 2019 expressed an unqualified opinion.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Snap Media from its assessment of internal control over financial reporting as of December 31, 2018, because it was acquired by the Company in a purchase business combination in the fourth quarter of 2018. We have also excluded the operations of Snap Media, from our audit of internal control over financial reporting. Snap Media is a 75% owned subsidiary whose total assets and total revenues represented less than 2% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

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

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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.

/s/ RSM US LLP

Miami, Florida
March 12, 2019

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**Hemisphere Media Group, Inc.**

**Consolidated Balance Sheets**

**As of December 31, 2018 and 2017**

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

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 94,478 | $ 124,299 |
| Accounts receivable, net of allowance for doubtful accounts of $2,645 and $2,327, respectively | 30,840 | 20,007 |
| Due from related parties | 970 | 2,169 |
| Programming rights | 10,735 | 7,723 |
| Prepaid taxes and other current assets | 7,801 | 12,517 |
| **Total current assets** | 144,824 | 166,715 |
| Programming rights, net of current portion | 15,321 | 11,520 |
| Property and equipment, net | 32,209 | 24,433 |
| Broadcast license | 41,356 | 41,356 |
| Goodwill | 169,994 | 164,887 |
| Other intangibles, net | 39,086 | 51,661 |
| Equity method investments | 51,658 | 30,907 |
| Deferred income taxes | 4,290 | 4,802 |
| Other assets | 2,529 | 1,605 |
| **Total Assets** | $ 501,267 | $ 497,886 |
| **Liabilities and Stockholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable | 2,515 | 3,465 |
| Due to related parties | 626 | 1,885 |
| Accrued agency commissions | 5,061 | 4,064 |
| Accrued compensation and benefits | 5,855 | 5,540 |
| Accrued marketing | 5,619 | 4,997 |
| Other accrued expenses | 6,810 | 3,771 |
| Income taxes payable | 2,265 | 24 |
| Programming rights payable | 4,051 | 2,920 |
| Investee losses in excess of investment | 4,982 | 2,806 |
| Current portion of long-term debt | 2,134 | 2,133 |
| **Total current liabilities** | 39,918 | 31,605 |
| Programming rights payable, net of current portion | 1,133 | 1,101 |
| Long-term debt, net of current portion | 203,957 | 205,509 |
| Deferred income taxes | 19,520 | 18,763 |
| Other long-term liabilities | 1,080 | |
| Defined benefit pension obligation | 2,260 | 2,004 |
| **Total Liabilities** | 267,868 | 258,982 |
| **Stockholders' Equity** | | |

| | | |
|---|---|---|
| Preferred stock, $0.0001 par value; 50,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2018 and December 31, 2017 | | |
| Class A common stock, $.0001 par value; 100,000,000 shares authorized; 24,849,589 and 25,171,433 shares issued at December 31, 2018 and 2017, respectively | 2 | 3 |
| Class B common stock, $.0001 par value; 33,000,000 shares authorized; 19,720,381 and 20,800,998 shares issued at December 31, 2018 and 2017, respectively | 2 | 2 |
| Additional paid-in capital | 270,345 | 265,329 |
| Treasury stock, at cost 5,523,838 and 5,390,107 at December 31, 2018 and 2017, respectively | (59,088) | (57,303) |
| Retained earnings | 19,495 | 30,401 |
| Accumulated other comprehensive income | 1,155 | 472 |
| **Total Hemisphere Media Group Stockholders' Equity** | 231,911 | 238,904 |
| Equity attributable to non-controlling interest | 1,488 | |
| **Total Stockholders' Equity** | 233,399 | 238,904 |
| **Total Liabilities and Stockholders' Equity** | $ 501,267 | $ 497,886 |

See accompanying notes to consolidated financial statements.

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**Hemisphere Media Group, Inc.**

**Consolidated Statements of Operations**

**Years Ended December 31, 2018 and 2017**

**(amounts in thousands, except per share amounts)**

| | 2018 | 2017 |
|---|---|---|
| Net revenues | $ 147,079 | $ 124,464 |
| Operating Expenses: | | |
| Cost of revenues | 42,174 | 39,965 |
| Selling, general and administrative | 44,499 | 39,437 |
| Depreciation and amortization | 16,081 | 16,228 |
| Other expenses | 1,473 | 3,501 |
| (Gain) from FCC spectrum repack and other | (1,880) | (23) |
| **Total operating expenses** | 102,347 | 99,108 |
| **Operating income** | 44,732 | 25,356 |
| Other (expense) income: | | |
| Interest expense, net | (12,132) | (10,905) |
| Loss on equity method investments | (35,206) | (11,885) |
| Gain from insurance proceeds | 2,080 | 3,250 |
| Loss on impairment of assets | | (546) |
| **Total other expense** | (45,258) | (20,086) |
| **(Loss) income before income tax expense** | (526) | 5,270 |
| Income tax expense | (10,271) | (18,706) |
| **Net loss** | (10,797) | (13,436) |
| Net income attributable to non-controlling interest | (109) | |
| **Net loss available to Hemisphere Media Group** | $ (10,906) | $ (13,436) |
| **Loss per share available to Hemisphere Media Group:** | | |
| Basic | $ (0.28) | $ (0.33) |
| Diluted | $ (0.28) | $ (0.33) |
| **Weighted average shares outstanding:** | | |
| Basic | 38,986 | 40,164 |
| Diluted | 38,986 | 40,164 |

See accompanying notes to consolidated financial statements.

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**Hemisphere Media Group, Inc.**

**Consolidated Statements of Comprehensive Loss**

**Years Ended December 31, 2018 and 2017**

**(amounts in thousands)**

| | 2018 | 2017 |
|---|---|---|
| Net loss | $ (10,797) | $ (13,436) |
| Other comprehensive income: | | |
| Change in fair value of interest rate swap, net of income taxes | 656 | 773 |
| Adjustment to defined benefit plan, net of income taxes | 27 | 182 |
| Total other comprehensive income | 683 | 955 |
| Comprehensive loss | (10,114) | (12,481) |
| Comprehensive income attributable to non-controlling interest | (109) | |
| Comprehensive loss attributable to Hemisphere Media Group. | $ (10,223) | $ (12,481) |

See accompanying notes to consolidated financial statements.

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**Hemisphere Media Group, Inc.**

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

**Years Ended December 31, 2018 and 2017**

**(amounts in thousands)**

| | **Class A Common Stock** | | **Class B Common Stock** | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Par Value** | **Shares** | **Par Value** | **Additional Paid In Capital** | **Class A Treasury Stock** | **Retained Earnings** | **Accumulated Comprehensive Income (Loss)** | **Non-controlling Interest** | **Total** |
| Balance at December 31, 2016 | 24,944 | $ 2 | 20,801 | $ 2 | $ 261,051 | $ (35,069) | $ 43,837 | $ (483) | | $ 269,340 |
| Net loss | | | | | | | (13,436) | | | (13,436) |
| Issuance of restricted stock | 204 | 1 | | | 1,155 | (324) | | | | 832 |
| Stock-based compensation | | | | | 2,912 | | | | | 2,912 |
| Repurchases of Class A common stock | | | | | | (21,910) | | | | (21,910) |
| Exercise of warrants | 23 | | | | 211 | | | | | 211 |
| Other comprehensive income, net of tax | | | | | | | | 955 | | 955 |
| Balance at December 31, 2017 | 25,171 | $ 3 | 20,801 | $ 2 | $ 265,329 | $ (57,303) | $ 30,401 | $ 472 | | $ 238,904 |
| Net (loss) income | | | | | | | (10,906) | | 109 | (10,797) |
| Non-controlling interest from acquisition of Snap Media | | | | | | | | | 1,379 | 1,379 |
| Issuance of treasury shares for acquisition of Snap Media | | | | | 309 | 1,088 | | | | 1,397 |
| Shares to be issued for acquisition of Snap Media | | | | | 753 | | | | | 753 |
| Vesting of restricted stock | 218 | 0 | | | 1,298 | (416) | | | | 882 |
| Stock-based compensation | | | | | 2,635 | | | | | 2,635 |
| Repurchases of Class A common Stock | | | | | | (2,443) | | | | (2,443) |
| Forfeiture of Class A common stock earnouts | (544) | (1) | | | 1 | | | | | |
| Forfeiture of Class B common stock earnouts | | | (1,081) | (0) | 0 | | | | | |
| Exercise of warrants | 2 | 0 | | | 20 | | | | | 20 |
| Exercise of options | 3 | 0 | | | (0) | (14) | | | | (14) |
| Other comprehensive income, net of tax | | | | | | | | 683 | | 683 |
| Balance at December 31, 2018 | 24,850 | $ 2 | 19,720 | $ 2 | $ 270,345 | $ (59,088) | $ 19,495 | $ 1,155 | $ 1,488 | $ 233,399 |

See accompanying notes to consolidated financial statements.

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**Hemisphere Media Group, Inc.**

**Consolidated Statements of Cash Flows**

**Years Ended December 31, 2018 and 2017**

**(amounts in thousands)**

| | 2018 | 2017 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net loss | $ (10,797) | $ (13,436) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,081 | 16,228 |
| Program amortization | 12,509 | 11,806 |
| Amortization of deferred financing costs and original issue discount | 591 | 620 |
| Stock-based compensation | 3,933 | 4,068 |
| Provision for bad debts | 417 | 756 |
| Gain on disposition of assets | (38) | (23) |
| Deferred tax expense | 1,040 | 14,473 |
| Loss on equity investments, net | 35,206 | 11,885 |
| Loss on impairment of fixed assets | | 546 |
| Gain from insurance proceeds | (2,080) | (3,250) |
| Gain from FCC spectrum repack | (1,477) | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (9,831) | 4,803 |
| Programming rights | (19,322) | (15,149) |
| Prepaid expenses and other assets | 4,668 | (7,006) |
| Increase (decrease) in: | | |
| Accounts payable | (1,209) | (60) |
| Due to related parties, net | (60) | 808 |
| Other accrued expenses | 3,435 | (2,829) |
| Programming rights payable | 1,163 | 621 |
| Income taxes payable | 2,240 | (1,595) |
| Other liabilities | 321 | 2,445 |
| Net cash provided by operating activities | 36,790 | 25,711 |
| Cash Flows From Investing Activities: | | |
| Investments in joint ventures | (53,782) | (39,986) |
| Capital expenditures | (10,628) | (2,496) |
| Insurance proceeds | 2,080 | 3,250 |
| FCC spectrum repack proceeds | 1,477 | |
| Net payment for the acquisition of Snap Media | (772) | |
| Net cash used in investing activities | (61,625) | (39,232) |
| Cash Flows From Financing Activities: | | |
| Repayments of long-term debt | (2,133) | (2,133) |
| Repurchases of common stock | (2,873) | (22,234) |
| Financing fees | | (1,114) |
| Exercise of warrants | 20 | 211 |
| Net cash used in financing activities | (4,986) | (25,270) |
| Net decrease in cash | (29,821) | (38,791) |
| Cash: | | |
| Beginning | $ 124,299 | $ 163,090 |

| | | | | |
|---|---|---|---|---|
| Ending | $ | 94,478 | $ | 124,299 |
| Supplemental Disclosures of Cash Flow Information: | | | | |
| Cash payments for: | | | | |
| Interest | $ | 10,574 | $ | 10,368 |
| Income taxes | $ | 8 | $ | 10,139 |
| Non-cash investing activity: | | | | |
| Acquisition financed in part by treasury shares | $ | 1,397 | | |

See accompanying notes to consolidated financial statements.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements**

**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:** The accompanying Consolidated Financial Statements include the accounts of Hemisphere Media Group, Inc. ("Hemisphere" or the "Company"), the parent holding company of Cine Latino, Inc. ("Cinelatino"), WAPA Holdings, LLC (formerly known as InterMedia Español Holdings, LLC) ("WAPA Holdings"), HMTV Cable, Inc., the parent company of the entities for the acquired networks consisting of Pasiones, TV Dominicana, and Centroamerica TV (see below), and Snap Global, LLC, a Delaware limited liability company and its wholly owned subsidiaries ("Snap Media"), which we acquired a 75% interest on November 26, 2018. Hemisphere was formed on January 16, 2013 for purposes of effecting the transaction, which was consummated on April 4, 2013. In these notes, the terms "Company," "we," "us" or "our" mean Hemisphere and all subsidiaries included in our Consolidated Financial Statements.

For more information on our equity method investments, see Note 7, "Equity Method Investments" of Notes to Consolidated Financial Statements.

**Reclassification:** Certain prior year amounts on the presented consolidated balance sheet and consolidated statement of cash flows, respectively, have been reclassified to conform with current year presentation.

**Principles of consolidation:** The Consolidated Financial Statements include our accounts and the accounts of our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company has interests in various entities including corporations and limited liability companies. For each such entity, the Company evaluates its ownership interest to determine whether the entity is a Variable Interest Entity ("VIE") and, if so, whether it is the primary beneficiary of the VIE. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations, or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights. The Company would consolidate any entity for which it was the primary beneficiary, regardless of its ownership or voting interests. The primary beneficiary is the party involved with the VIE that (i) has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Upon inception of a variable interest or the occurrence of a reconsideration event, the Company makes judgments in determining whether entities in which it invests are VIEs. If so, the Company makes judgments to determine whether it is the primary beneficiary and is thus required to consolidate the entity.

If it is concluded that an entity is not a VIE, then the Company considers its proportional voting interests in the entity. The Company consolidates majority-owned subsidiaries in which a controlling financial interest is maintained. A controlling financial interest is determined by majority ownership and the absence of significant third-party participating rights.

Ownership interests in entities for which the Company has significant influence that are not consolidated under the Company's consolidation policy are accounted for as equity method investments.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

Related party transactions between the Company and its equity method investees have not been eliminated.

**Basis of presentation:** The accompanying consolidated financial statements for us and our subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

**Operating segments:** The Company determines its operating segments based upon (i) financial information reviewed by the chief operating decision maker, the Chief Executive Officer, (ii) internal management and related reporting structure and (iii) the basis upon which the chief operating decision maker makes resource allocation decisions. We have one operating segment, Hemisphere.

**Net loss per common share:** Basic loss per share ("LPS") are computed by dividing income attributable to Hemisphere Media Group common stockholders by the number of weighted-average outstanding shares of common stock. Diluted LPS reflects the effect of the assumed exercise of stock options and vesting of restricted shares only in the periods in which such effect would have been dilutive.

The following table sets forth the computation of the common shares outstanding used in determining basic and diluted LPS available to Hemisphere Media Group (*amounts in thousands, except per share amounts*):

| | Years Ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| **Numerator for earnings per common share calculation:** | | |
| Net loss available to Hemisphere Media Group. | $ (10,906) | $ (13,436) |
| **Denominator for earnings per common share calculation:** | | |
| Weighted-average common shares, basic | 38,986 | 40,164 |
| Effect of dilutive securities | | |
| Stock options, restricted stock and warrants | | |
| Weighted-average common shares, diluted | 38,986 | 40,164 |
| Loss per share available to Hemisphere Media Group | | |
| Basic | $ (0.28) | $ (0.33) |
| Diluted | $ (0.28) | $ (0.33) |

We apply the treasury stock method to measure the dilutive effect of its outstanding warrants, stock options and restricted stock awards and include the respective common share equivalents in the denominator of our diluted income per common share calculation. Per the Accounting Standards Codification ("ASC") 260 accounting guidance, under the treasury stock method, the incremental shares (difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted LPS computation (ASC 260-10-45-23). The assumed exercise only occurs when the warrants are "In the Money" (exercise price is lower than the average market price for the period). If the warrants are "Out of the Money" (exercise price is higher than the average market price for the period), the exercise is not assumed since the result would be anti-dilutive. Potentially dilutive securities representing 1.6 million and 2.0 million shares of common

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

stock for the years ended December 31, 2018 and 2017, respectively, were excluded from the computation of diluted loss per common share for this period because their effect would have been anti-dilutive. The net loss per share available to Hemisphere Media Group amounts are the same for our Class A and Class B common stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

As a result of the loss from continuing operations for each of the years ended December 31, 2018 and 2017, 0.4 million and 0.3 million outstanding awards, respectively, were not included in the computation of diluted loss per share because their effect was anti-dilutive.

In computing loss per share, the Company's Nonvoting Stock is considered a participating security. Each share of Nonvoting Stock has identical rights, powers, limitations and restrictions in all respects as each share of common of the Company, including the right to receive the same consideration per share payable in respect of each share of common stock, except that holders of Nonvoting Stock shall have no voting rights or powers whatsoever.

**Revenue recognition:** Prior to 2018, revenue was recognized when persuasive evidence of a sales arrangement exists, services are rendered or delivery occurs, the sales price is fixed or determinable and collectability is reasonably assured. Revenues do not include taxes collected from customers on behalf of taxing authorities such as sales tax and value-added tax. However, certain revenues include taxes that customers pay to taxing authorities on the Company's behalf, such as foreign withholding tax. Revenue related to the sale of advertising and contracted time is recognized, net of agency commissions, at the time of broadcast. The Company determines whether gross or net presentation is appropriate based on its relationship in the applicable transactions with its ultimate customer. Affiliate revenue received from multi-channel video providers are recognized in the period in which the services are performed, generally pursuant to multi-year carriage agreements based on the number of subscribers.

On January 1, 2018, we adopted, on a modified retrospective basis, Financial Accounting Standards Board (the "FASB") *ASC Topic 606, Revenue from Contracts with Customers* ("ASC 606") (the "new revenue standard"), which provides accounting guidance that establishes a new revenue recognition framework in GAAP for all companies and industries. The core principle of the new revenue framework is that an entity should recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive for those goods or services. The revenue framework includes a five-step model to determine the timing and amount of revenue to recognize related to contracts with customers. In addition, this revenue framework requires new or expanded disclosures related to the amounts of revenue recognized and judgments made by companies when following this framework.

The adoption of the new accounting guidance did not result in changes in the way the Company records affiliate revenue, advertising revenue or content licensing fees. Guidance pertaining to the evaluation of whether revenue should be presented on a gross or net basis was changed in connection with the new revenue standard and the application of such change has been made in the presentation of revenues in the consolidated financial statements. The adoption of the new revenue standard did not have a material impact to our statement of operations for the year ended December 31, 2018, and did not have a material impact to our consolidated balance sheet as of December 31, 2018. For more information, see Note 2, "Revenue Recognition" of Notes to Consolidated Financial Statements.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Barter transactions:** The Company engages in barter transactions in which advertising time is exchanged for products or services. Barter transactions are accounted for at the estimated fair value of the products or services received, or advertising time given up, whichever is more clearly determinable. Barter revenue is recognized at the time the advertising is broadcast. Barter expense is recorded at the time the merchandise or services are used and/or received.

Barter revenue and expense included in the consolidated statements of operations are as follows (*amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Barter revenue | $ 877 | $ 710 |
| Barter expense | (583) | (676) |
| | $ 294 | $ 34 |

**Programming costs:** Programming costs are recorded in cost of revenues based on the Company's contractual agreements with various third party programming distributors which are generally multi-year agreements.

**Equity-based compensation:** We have given equity incentives to certain employees. We account for such equity incentives in accordance with ASC 718 "Stock Compensation," which requires us to measure compensation cost for equity settled awards at fair value on the date of grant and recognize compensation cost in the consolidated statements of operations over the requisite service or performance period the award is expected to vest. Compensation cost is determined using the Black-Scholes option pricing model.

**Advertising and marketing costs:** The Company expenses advertising and marketing costs as incurred. The Company incurred advertising and marketing costs of $3.0 million and $3.3 million for the years ended December 31, 2018 and 2017, respectively.

**Cash:** The Company maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts.

**Accounts receivable:** Accounts receivable are carried at the original charge amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. The Company considers an account receivable to be past due if any portion of the receivable balance is outstanding for more than 90 days. Changes in the allowance for doubtful accounts for the years ended December 31, 2018 and 2017 consisted of the following *(amounts in thousands):*

| Year | Description | Beginning of Year | Provisions for bad debt | Write-offs | Recoveries | End of Year |
|---|---|---|---|---|---|---|
| 2018 | Allowance for doubtful accounts | $ 2,327 | $ 417 | $ 107 | $ 8 | $ 2,645 |
| 2017 | Allowance for doubtful accounts | $ 1,711 | $ 756 | $ 160 | $ 20 | $ 2,327 |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

**Programming rights:** We enter into multi-year license agreements with various programming Distributors for distribution of their respective programming ("programming rights") and capitalize amounts paid to secure or extend these programming rights at the lower of unamortized cost or estimated net realizable value. If management estimates that the unamortized cost of programming rights exceeds the estimated net realizable value, an adjustment is recorded to reduce the carrying value of the programming rights. For the year ended December 31, 2018, management deemed it necessary to write-down certain program rights of $1.0 million, which is included in the amortization of programming rights below. No such write-down was deemed necessary during the year ended December 31, 2017. Programming rights are amortized over the term of the related license agreements or the number of exhibitions, whichever occurs first. The amortization of these rights, was $12.5 million and $11.8 million for the years ended December 31, 2018 and 2017, respectively, is recorded as part of cost of revenues in the accompanying consolidated statements of operations. Accumulated amortization of the programming rights was $45.1 million and $32.6 million at December 31, 2018 and 2017, respectively. Costs incurred in connection with the purchase of programs to be broadcast within one year are classified as current assets, while costs of those programs to be broadcast subsequently are considered noncurrent. Program obligations are classified as current or noncurrent in accordance with the payment terms of the license agreement.

**Property and equipment:** Property and equipment are recorded at cost. Depreciation is determined using the straight-line method over the expected remaining useful lives of the respective assets. Useful lives range from 1 - 40 years for improvements, equipment, buildings and towers. Upon retirement or other disposition, the cost and related accumulated depreciation of the assets are removed from the accounts and the resulting gain or loss is reflected in the determination of net income or loss. Expenditures for maintenance and repairs are expensed as incurred. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2017, we recorded an impairment charge of $0.5 million related to property and equipment damaged by Hurricane Maria. For more information on our property and equipment, see Note 5, "Property and Equipment" of Notes to Consolidated Financial Statements.

**Equity method investments:** The Company holds investments in equity method investees. Investments in equity method investees are those for which the Company has the ability to exercise significant influence, but does not have control and is not the primary beneficiary. Significant influence typically exists if the Company has a 20% to 50% ownership interest in the venture unless persuasive evidence to the contrary exists. Under this method of accounting, the Company typically records its proportionate share of the net earnings or losses of equity method investees and a corresponding increase or decrease to the investment balances. Cash payments to equity method investees such as additional investments, loans and advances and expenses incurred on behalf of investees, as well as payments from equity method investees such as dividends, distributions and repayments of loans and advances are recorded as adjustments to investment balances.

In the event we incur losses in excess of the carrying amount of an equity investment and reduce our investment balance to zero, we would not record additional losses unless (i) we guaranteed obligations of the investee, (ii) we are otherwise committed to provide further financial support for the investee, or (iii) it is anticipated that the investee's return to profitability is imminent. If we provided a commitment to fund losses, we would continue to record losses resulting in a negative equity method

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

investment, which is presented as a liability. As of December 31, 2018, our proportionate share of the losses of Pantaya ("Pantaya" refers to Pantaya, LLC, a Delaware limited liability company, a joint venture among us and a subsidiary of Lions Gate Entertainment, Inc.) exceeds our investment in Pantaya by $5.0 million. This amount is recorded as "Investee losses in excess of investment" on our consolidated balance sheet at December 31, 2018, due to our commitment for future capital funding.

Equity method investments are reviewed for indicators of other-than-temporary impairment on a quarterly basis. An equity method investment is written down to fair value if there is evidence of a loss in value which is other-than-temporary. The Company may estimate the fair value of its equity method investments by considering recent investee equity transactions, discounted cash flow analysis, recent operating results, comparable public company operating cash flow multiples and in certain situations, balance sheet liquidation values. If the fair value of the investment has dropped below the carrying amount, management considers several factors when determining whether an other-than-temporary decline has occurred, such as: the length of the time and the extent to which the estimated fair value or market value has been below the carrying value, the financial condition and the near-term prospects of the investee, the intent and ability of the Company to retain its investment in the investee for a period of time sufficient to allow for any anticipated recovery in market value and general market conditions. The estimation of fair value and whether an other-than-temporary impairment has occurred requires the application of significant judgment and future results may vary from current assumptions

For our foreign equity investment, we perform an annual review of the international financial reporting standards ("IFRS") versus U.S. GAAP accounting. Any significant differences are considered and adjusted to ensure a U.S. GAAP presentation. There were no differences noted in the presentation of our foreign investment's IFRS financial statements when compared to U.S. GAAP.

For more information on Equity method investments, see Note 7, "Equity Method Investments" of Notes to Consolidated Financial Statements.

**Goodwill and other intangibles:** The Company's goodwill is recorded as a result of the Company's business combinations using the acquisition method of accounting. Indefinite lived intangible assets include a broadcast license, trademarks and tradenames. Other intangible assets include customer relationships, non-compete agreements, affiliate agreements, and programming rights with an estimated useful life of one to ten years. Other intangible assets are amortized over their estimated lives using the straight-line method. Costs incurred to renew or extend the term of recognized intangible assets are capitalized and amortized over the useful life of the asset.

The Company tests its broadcast license annually for impairment or whenever events or changes in circumstances indicate that such assets might be impaired. The impairment test consists of a comparison of the fair value of these assets with their carrying amounts using a discounted cash flow valuation method, assuming a hypothetical start-up scenario.

The Company tests its trademarks and tradenames annually for impairment or whenever events or changes in circumstances indicate that such assets might be impaired. The test consists of a comparison of the fair value of these assets with the carrying amounts utilizing an income approach in the form of the royalty relief method, which measures the cost savings that a business enjoys since it does not have to pay a royalty rate for the use of a particular domain name and brand.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

The Company tests its goodwill annually for impairment or whenever events or changes in circumstances indicate that goodwill might be impaired. The first step of the goodwill impairment test compares the fair value of each reporting unit with its carrying amount, including goodwill. The fair value of the reporting units are determined through the use of a discounted cash flow analysis incorporating variables such as revenue projections, projected operating cash flow margins, and discount rates.

The valuation assumptions used in the discounted cash flow model reflect historical performance of the Company and prevailing values in the broadcast and cable markets. If the fair value exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the implied fair value, an impairment loss shall be recognized in an amount equal to that excess.

The Company tests its other finite lived intangible asset for impairment whenever events or changes in circumstances indicate that such asset or asset group might be impaired. This analysis is performed by comparing the respective carrying value of the asset group to the current and expected future cash flows, on an undiscounted basis, to be generated from such asset group. If such analysis indicates that the carrying value of this asset group is not recoverable, the carrying value of such asset group is reduced to fair value.

**Deferred financing costs:** Deferred financing costs are recorded net of accumulated amortization and are presented as a reduction to the principal amount of the long-term debt. Amortization is calculated on the effective-interest method over the term of the applicable loan. Amortization of deferred financing costs was $0.2 million and $0.3 million, which is included in interest expense, net in the accompanying consolidated statements of operations for the years ended December 31, 2018 and 2017, respectively. Accumulated amortization of deferred financing costs was $2.0 million and $1.8 million at December 31, 2018 and 2017. The net deferred financing costs of $1.3 million and $1.5 million at December 31, 2018 and 2017, respectively, and have been presented on the consolidated balance sheets as a reduction to the principal amount of the Long-term debt outstanding.

**Income taxes:** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We record foreign withholding tax, which is withheld by foreign customers from their remittances to us, on a gross basis as a component of income taxes and separate from revenue in the consolidated statement of operations.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

We follow the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. To the extent that interest and penalties are assessed by taxing authorities on any underpayment of income taxes, such amounts are accrued and classified as a component of income tax expense.

For more information on Income taxes, see Note 8, "Income Taxes" of Notes to Consolidated Financial Statements.

**Fair value of financial instruments:** The carrying amounts of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of these items. The carrying value of the long-term debt approximates fair value because this instrument bears interest at a variable rate, is pre-payable, and is at terms currently available to the Company.

U.S. GAAP establishes a framework for measuring fair value and expanded disclosures about fair value measurements. This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Under this guidance, assets and liabilities carried at fair value must be classified and disclosed in one of the following three categories:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

Level 2 inputs to the valuation methodology include quoted prices in markets that are not active or quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable, reflecting the entity's own assumptions about assumptions market participants would use in pricing the asset or liability.

The categorization of an asset or liability within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Company's programming rights and goodwill are classified as Level 3 in the fair value hierarchy, as they are measured at fair value on a non-recurring basis and are adjusted to fair value only when the carrying values exceed their fair values. For the year ended December 31, 2018, management deemed it necessary to write-down certain program rights of $1.0 million. For the year ended December 31, 2017, there were no adjustments to fair value.

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

The Company's variable-rate debt and interest rate swaps are classified as Level 2 in the fair value hierarchy, as its estimated fair value is derived from quoted market prices by independent dealers. The carrying value of the long-term debt approximates fair value at December 31, 2018 and 2017.

**Derivative Instruments:** The Company uses derivative financial instruments from time to time to modify its exposure to market risks from changes in interest rates. The Company may designate derivative instruments as cash flow hedges or fair value hedges, as appropriate. The Company records all derivative instruments at fair value on a gross basis. For those derivative instruments designated as cash flow hedges that qualify for hedge accounting, gains or losses on the effective portion of derivative instruments are initially recorded in accumulated other comprehensive loss on the consolidated balance sheets and reclassified to the same account on the consolidated statements of operations in which the hedged item is recognized on the consolidated statements of operations.

**Major customers and suppliers:** Two of our distributors each accounted for more than 10% of our total net revenues for the year ended December 31, 2018. There were no other distributors or other customers that accounted for more than 10% of revenue in any year. Our Networks are provided to these distributors pursuant to affiliation agreements with varying terms.

**Accounting guidance not yet adopted:** In June 2018, the FASB issued *Accounting Standards Update ("ASU") 2018-07 Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.* The amendments in this ASU apply to any entity that enters into share-based payment transactions with nonemployees. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted, but no earlier than an entity's adoption date of ASC 606. We will adopt this standard beginning January 1, 2019 and expect no material impact to our consolidated financial statements moving forward.

In February 2018, the FASB issued *ASU 2018-02 Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of certain tax effects from Accumulated other comprehensive income*. The amendments in this ASU apply to any entity that has items of other comprehensive income ("OCI") for which the related tax effects are presented in OCI, as previously required by GAAP. This ASU allows a one time reclassification from OCI to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The amendments in this ASU are effective for all entities for annual periods beginning after December 31, 2018. Early adoption is permitted and the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We will adopt this standard beginning January 1, 2019 and expect no material impact to our consolidated financial statements moving forward.

In August 2017, the FASB issued *ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU apply to any entity that elects to apply hedge accounting and is intended to better align an entity's risk management activities and financial reporting for hedging relationships. The ASU amends effectiveness testing requirements, income statement presentation and disclosures and permits additional risk management strategies to qualify for hedge accounting. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019. Early application is permitted; the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of this Update on our consolidated financial statements.

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 1. Nature of Business and Significant Accounting Policies (Continued)**

In February 2016, the FASB issued *ASU 2016-02 Leases (Topic 842)*. ASU 2016-02 amends the FASB ASC, creating Topic 842, Leases. Topic 842 affects any entity that enters into a lease, with specified scope exemptions, and supersedes Topic 840, Leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases, in the statement of financial position.

The guidance will be effective for the first interim period of our 2019 fiscal year and requires a modified retrospective transition approach with application either in all comparative periods presented (the "comparative method"), or as of the effective date of initial application without restating comparative period financial statements (the "effective date method"). The new guidance also provides several optional practical expedients that companies may elect under either transition method. We have elected to apply the effective date method and the package of practical expedients, which includes allowing us to continue utilizing historical classification of leases. We do not expect to elect the practical expedient that permits a reassessment of lease terms for existing leases. Upon our transition to the new guidance, we expect to recognize approximately $2 million of operating lease liabilities and corresponding right of use ("ROU") assets. We do not expect the adoption of this new guidance to have an impact on the amount or timing of our cash flows, liquidity, or income statement.

**Use of estimates:** In preparing these Consolidated Financial Statements, management made estimates and assumptions that affected the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the balance sheet date, and the reported revenues and expenses for the years then ended. Such estimates are based on historical experience and other assumptions that are considered appropriate in the circumstances. However, actual results could differ from those estimates.

**Note 2. Revenue Recognition**

We transitioned to the FASB ASC 606, from ASC 605, *Revenue Recognition*, on January 1, 2018 using the modified retrospective method. Our consolidated financial statements reflect the application of ASC 606 guidance beginning January 1, 2018, while our consolidated financial statements for prior periods were prepared under ASC 605 guidance. There were no cumulative effects of our transition to ASC 606. For more information, see Note 1, "Basis of Presentation" of Notes to Consolidated Financial Statements.

The following table presents the revenues disaggregated by revenue source *(amounts in thousands):*

| Revenues by type | Year ended December 31, 2018 | Year ended December 31, 2017 |
|---|---|---|
| Affiliate revenue | $ 77,765 | $ 74,303 |
| Advertising revenue | 59,692 | 47,980 |
| Other revenue | 9,622 | 2,181 |
| Total revenue | $ 147,079 | $ 124,464 |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 2. Revenue Recognition (Continued)**

The following is a description of principal activities from which we generate our revenue:

**Affiliate revenue:** We enter into arrangements with multi-channel video distributors, such as cable, satellite and telecommunications companies (referred to as "MVPDs") to provide a continuous feed of our programming generally based on a per subscriber fee pursuant to multi-year contracts, referred to as "affiliation agreements", which typically provide for annual rate increases. We have used the practical expedient related to the right to invoice and recognize revenue at the amount to which we have the right to invoice for services performed. The specific affiliate revenues we earn vary from period to period, distributor to distributor and also vary among our Networks, but are generally based upon the number of each distributor's paying subscribers who receive our Networks. Changes in affiliate revenues are primarily derived from changes in contractual per subscriber rates charged for our Networks and changes in the number of subscribers. MVPDs report their subscriber numbers to us generally on a two month lag. We record revenue based on estimates of the number of subscribers utilizing the most recently received remittance reporting of each MVPD, which is consistent with our past practice and industry practice. Revenue is recognized on a month by month basis when the performance obligations to provide service to the MVPDs is satisfied. Payment is typically received within sixty days.

**Advertising revenue:** Advertising revenues are generated from the sale of commercial time, which is typically sold pursuant to sales orders with advertisers providing for an agreed upon commitment and price per spot. We recognize revenue from the sale of advertising as performance obligations are satisfied upon airing of the advertising; therefore, revenue is recognized at a point in time when each advertising spot is transmitted. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. Payment is typically due and received within thirty days.

**Other revenue:** Other revenues are derived primarily through the licensing of our content. We enter into agreements to license content and recognize revenue when the performance obligation is satisfied and control is transferred, which is generally upon delivery of the content. For the year ended December 31, 2018, we received $5.8 million from our business interruption insurance policies related to Hurricane Maria in 2017.

Excluding $5.8 million received from our business interruption policies, our total revenue from customers is $141.3 million.

**Comparison to amounts if ASC 605 had been in effect**

The following table reflects the impact of adoption of ASC 606 on our consolidated statements of operations for the year ended December 31, 2018, and the amounts as if ASC 605 was still in effect ("ASC 605 Presentation") *(amounts in thousands):*

| | Year ended December 31, 2018 | | |
|---|---|---|---|
| | ASC 606 Reported | Reclassification | ASC 605 Presentation |
| Net revenues | $ 147,079 | $ (3,759) | $ 143,320 |
| Operating expenses | 102,347 | (3,759) | 98,588 |
| Operating income | $ 44,732 | $ | $ 44,732 |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 3. Related Party Transactions**

The Company has various agreements with MVS, a Mexican media and television conglomerate, which has directors and stockholders in common with the Company as follows:

On November 15, 2018, an amendment to agreement was executed, effective through February 28, 2022, pursuant to which MVS provides Cinelatino with satellite and support services including origination, uplinking and satellite delivery of two feeds of Cinelatino's channel (for U.S. and Latin America), master control and monitoring, dubbing, subtitling and close captioning, and other support services (the "Satellite and Support Services Agreement"). This original agreement was amended on May 20, 2015, to expand the services MVS provides to Cinelatino to include commercial insertion and editing services to support advertising sales on Cinelatino's U.S. feed. Expenses incurred under this agreement are included in cost of revenues in the accompanying consolidated statements of operations. Total expenses incurred were $2.4 million and $2.6 million for the years ended December 31, 2018 and 2017, respectively. Amounts due to MVS pursuant to the agreements noted above amounted to $0.7 million and $1.9 million at December 31, 2018 and 2017, respectively.

On November 15, 2018, an amendment to affiliation agreement was executed, effective through February 28, 2022 for the distribution and exhibition of Cinelatino's programming service through Dish Mexico (d/b/a Comercializadora de Frecuencias Satelitales, S. de R.L. de C.V.), an MVS affiliate that transmits television programming services throughout Mexico. Total revenues recognized were $1.8 million and $2.1 million for the years ended December 31, 2018 and 2017, respectively. Amounts due from Dish Mexico amounted to $0.3 million at December 31, 2018 and 2017.

On November 15, 2018, an amendment was executed to extend MVS the non-exclusive right to duplicate, distribute and exhibit Cinelatino's service via cable, satellite or by any other means in Mexico. Pursuant to the arrangement, Cinelatino receives revenues net of MVS's distribution fee, which is presently equal to 13.5% of all license fees collected from third party distributors managed by MVS to the extent that distribution is not owned by MVS. Total revenues recognized were $1.1 million and $1.6 million for the years ended December 31, 2018 and 2017, respectively. Amounts due from MVS pursuant to the agreements noted above amounted to $0.7 million and $1.8 million at December 31, 2018 and 2017, respectively.

We renewed the three-year consulting agreement effective April 9, 2016 with James M. McNamara, a member of the Company's board of directors, to provide the development, production and maintenance of programming, affiliate relations, identification and negotiation of carriage opportunities, and the development, identification and negotiation of new business initiatives including sponsorship, new channels, direct-to-consumer programs and other interactive initiatives. Total expenses incurred under these agreements are included in selling, general and administrative expenses and amounted to $0.5 million for each of the years ended December 31, 2018 and 2017, respectively. No amounts were due to this related party at December 31, 2018 and 2017.

We entered into agreements effective February 1, 2015, to license the rights to motion pictures from Lions Gate Films, Inc. ("Lionsgate") for a total license fee of $1.0 million. Some of the titles are owned or controlled by Pantelion Films, LLC ("Pantelion"), for which Lionsgate acts as Pantelion's exclusive licensing agent. Pantelion is a joint venture made up of several organizations, including Panamax (an entity owned by James M. McNamara), Lionsgate and Grupo Televisa. Fees paid by Cinelatino to Lionsgate may be remunerated to Pantelion in accordance with their financial

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**Note 3. Related Party Transactions (Continued)**

arrangements. Expenses incurred under this agreement are included in cost of revenues in the accompanying consolidated statements of operations, and amounted to $0.1 million and $0.3 million for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, $0 million and $0.1 million, respectively, is included in programming rights in the accompanying consolidated balance sheets.

We entered into an output agreement effective November 2, 2016, with Pantelion for the licensing of movie titles. Expenses incurred under this agreement are included in cost of revenues in the accompanying consolidated statements of operations and amounted to $0.0 million for year ended December 31, 2018. There were no costs incurred for the year ended December 31, 2017. At December 31, 2018, $0.5 million is included in programming rights in the accompanying consolidated balance sheets related to these agreements. There were no amounts included in programming rights at December 31, 2017.

**Note 4. Snap Media Acquisition**

On November 26, 2018, the Company completed the acquisition of a seventy five percent (75%) interest in Snap Global, LLC ("Snap Media"), pursuant to the terms of a Transaction Agreement (the "Snap Media Acquisition"). Snap Media is a leading independent distributor of content in Latin America to broadcast, pay TV and OTT platforms. The opportunity is to leverage Snap to drive licensing of our content and to identify co-production opportunities in Latin America. The Snap Media Acquisition was accounted for as a business combination using the acquisition method of accounting.

Total consideration in connection with the Snap Media Acquisition is $4.8 million (net of $0.7 million of cash acquired), which includes 101,818 shares of the Company's Class A common stock issued and $1.5 million paid at closing. Additional consideration to be paid includes 54,825 shares of the Company's Class A common stock to be issued and $0.8 million to be paid in 2019 and $0.5 million to be paid in each of 2020 and 2021. The fair value of shares of the Company's Class A common stock included in consideration is based on the closing price of the Company's Class A common shares on November 26, 2018. Future consideration is classified as Other accrued expenses, Other long-term liabilities and Additional paid in capital in the Company's consolidated balance sheet.

Fees and expenses related to the Snap Media Acquisition totaled $0.6 million consisting primarily of professional fees, all of which are classified as selling, general and administrative expenses in the accompanying condensed consolidated statements of operations.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 4. Snap Media Acquisition (Continued)**

The preliminary allocation of consideration to the net tangible and intangible assets acquired is presented in the table below (amounts in thousands):

| | 2018 |
|---|---|
| Accounts receivable | $ 1,419 |
| Other current assets | 30 |
| Intangible asset content library | 616 |
| Accounts payable | (259) |
| Accrued expenses | (589) |
| Deferred revenue | (140) |
| Fair value of net assets acquired | 1,077 |
| Goodwill | 5,107 |
| Non-controlling interest | (1,379) |
| Total purchase price consideration | **$ 4,805** |

Programming rights intangible assets have an amortization period of approximately 7.0 years.

The purchase price allocation reflects preliminary fair value estimates based on preliminary work and analyses performed by management and is subject to change as additional information to assist in determining the fair value of the net assets acquired at the closing date is obtained during the post-closing measurement period.

Goodwill attributable to the Snap Media Acquisition is expected to be deductible for tax purposes. Goodwill represents the excess of the purchase price consideration over the fair value of the underlying net assets acquired and largely results from expected future synergies from combining operations as well as an assembled workforce, which does not qualify for separate recognition.

The non-controlling interest fair value reflects the fair value of purchase price consideration for a controlling interest, less discounts for lack of control and marketability.

The Snap Media Acquisition is not material to our consolidated financial statements, and therefore, supplemental pro forma financial information related to the acquisition is not included herein.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 5. Property and Equipment**

Property and equipment at December 31, 2018 and 2017 consists of the following *(amounts in thousands)*:

| | 2018 | 2017 |
|---|---|---|
| Land and improvements | $ 8,724 | $ 8,724 |
| Building | 11,258 | 11,258 |
| Equipment | 25,921 | 27,930 |
| Towers | 1,536 | 1,450 |
| | 47,439 | 49,362 |
| Less: accumulated depreciation | (25,069) | (26,220) |
| | 22,370 | 23,142 |
| Equipment installations in progress | 9,839 | 1,291 |
| | **$ 32,209** | **$ 24,433** |

Depreciation expense was $2.8 million and $2.9 million for the years ended December 31, 2018 and 2017, respectively.

On September 20, 2017, Hurricane Maria made landfall in Puerto Rico, causing damage to WAPA's infrastructure including one of its transmission towers, which was completely destroyed. Accordingly, we recorded a $0.5 million fixed asset impairment charge related to the net book value of the identified damaged assets in 2017. A significant portion of the damaged assets have been in service for more than 10 years and, as such, were largely fully depreciated. We anticipate the replacement cost will be well in excess of the net book value, though we expect insurance will cover most of the replacement costs, subject to deductibles and other costs. There can be no assurances of the timing and amount of proceeds we may recover under our insurance policies. For the years ended December 31, 2018 and 2017, we received and recognized $2.1 million and $3.3 million, respectively, in insurance recoveries related to these assets.

**Note 6. Goodwill and Intangible Assets**

Goodwill and intangible assets consist of the following at December 31, 2018 and 2017 (*amounts in thousands*):

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Broadcast license | $ 41,356 | $ 41,356 |
| Goodwill | 169,994 | 164,887 |
| Other intangibles | 39,086 | 51,661 |
| Total intangible assets | **$ 250,436** | **$ 257,904** |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 6. Goodwill and Intangible Assets (Continued)**

A summary of changes in the Company's goodwill and other indefinite lived intangible assets, on a net basis, for the years ended December 31, 2018 and 2017, is as follows *(amounts in thousands*):

| | Net Balance at December 31, 2017 | Additions | Impairment | Net Balance at December 31, 2018 |
|---|---|---|---|---|
| Broadcast license | $ 41,356 | $ | $ | $ 41,356 |
| Goodwill | 164,887 | 5,107 | | 169,994 |
| Brands | 15,986 | | | 15,986 |
| Other intangibles | 700 | | | 700 |
| Total indefinite-lived intangibles | **$ 222,929** | **$ 5,107** | **$** | **$ 228,036** |

| | Net Balance at December 31, 2016 | Additions | Impairment | Net Balance at December 31, 2017 |
|---|---|---|---|---|
| Broadcast licenses | $ 41,356 | $ | $ | $ 41,356 |
| Goodwill | 164,887 | | | 164,887 |
| Brands | 15,986 | | | 15,986 |
| Other intangibles | 700 | | | 700 |
| Total indefinite-lived intangibles | **$ 222,929** | **$** | **$** | **$ 222,929** |

A summary of the changes in the Company's other amortizable intangible assets for the years ended December 31, 2018 and 2017 is as follows (*amounts in thousands*):

| | Net Balance at December 31, 2017 | Additions | Amortization | Net Balance at December 31, 2018 |
|---|---|---|---|---|
| Affiliate relationships | $ 32,343 | $ | $ (12,070) | $ 20,273 |
| Advertiser relationships | 1,240 | | (550) | 690 |
| Non-compete agreement | 1,235 | | (549) | 686 |
| Other intangibles | 157 | 65 | (78) | 144 |
| Programming contracts | | 616 | (9) | 607 |
| Total finite-lived intangibles | **$ 34,975** | **$ 681** | **$ (13,256)** | **$ 22,400** |

| | Net Balance at December 31, 2016 | Additions | Amortization | Net Balance at December 31, 2017 |
|---|---|---|---|---|
| Affiliate relationships | $ 44,468 | $ | $ (12,125) | $ 32,343 |
| Advertiser relationships | 1,792 | | (552) | 1,240 |
| Non-compete agreement | 1,784 | | (549) | 1,235 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other intangibles | | 119 | | 92 | | (54) | | 157 |
| **Total finite-lived intangibles** | **$** | **48,163** | **$** | **92** | **$** | **(13,280)** | **$** | **34,975** |

The aggregate amortization expense of the Company's amortizable intangible assets was $13.3 million for each of the years ended December 31, 2018 and 2017. The weighted average

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 6. Goodwill and Intangible Assets (Continued)**

remaining amortization period is 3.0 years at December 31, 2018. Future estimated amortization expense is as follows *(amounts in thousands):*

| Year Ending December 31, | Amount |
|---|---|
| 2019 | $ 8,597 |
| 2020 | 6,170 |
| 2021 | 5,857 |
| 2022 | 1,528 |
| 2023 and thereafter | 248 |
| | **$ 22,400** |

**Note 7. Equity Method Investments**

The Company makes investments that support its underlying business strategy and enable it to enter new markets. The carrying values of the Company's equity method investments are typically consistent with its ownership in the underlying net assets of the investees, with the exception of Canal 1 and Pantaya. Due to losses in excess of capital contributions, the Company has recorded nearly 100% of the losses on Canal 1. The Company has also recorded losses in excess of the amount invested in Pantaya. Certain of the Company's equity investments are variable interest entities, for which the Company is not the primary beneficiary.

On November 3, 2016, we acquired a 25% interest in Pantaya, a newly formed joint venture with Lionsgate, to launch a Spanish-language OTT movie service. The service launched on August 1, 2017. The investment is deemed a variable interest entity ("VIE") that is accounted for under the equity method. As of December 31, 2018, we have funded $4.7 million in capital contributions to Pantaya. In accordance with U.S. GAAP, since we are committed to provide future capital contributions to Pantaya, we continue to record our proportionate share of losses on a one quarter lag. For the years ended December 31, 2018 and 2017, we have recorded $6.9 million and $2.8 million, respectively in loss on equity method investments related to Pantaya, which is presented as a liability in the accompanying consolidated balance sheets. The net balance recorded in investee losses in excess of investment related to Pantaya joint venture was $5.0 million and $2.8 million at December 31, 2018 and 2017, respectively, and is included in the accompanying consolidated balance sheets.

On November 30, 2016, we, in partnership with Colombian content producers, Radio Television Interamericana S.A., Compania de Medios de Informacion S.A.S. and NTC Nacional de Television y Comunicaciones S.A., were awarded a ten (10) year renewable television broadcast concession license for Canal 1 in Colombia. The partnership began operating Canal 1 on May 1, 2017. On February 7, 2018, Colombian regulatory authorities approved an increase in our ownership in the joint venture from 20% to 40%. The joint venture is deemed a VIE that is accounted for under the equity method. We earn a preferred return on the capital funded, which is recorded quarterly as an offset to the loss on the investment. As of December 31, 2018, we have recorded $84.1 million in equity method funding related to Canal 1. We record the income or loss on investment on a one quarter lag. For the years ended December 31, 2018 and 2017, we recorded $28.3 million and $9.1 million, net of preferred return, in loss on equity method investments, respectively. The Canal 1 joint venture losses to date have exceeded the capital contributions of the common equity partners and in accordance with equity method accounting, equity losses in excess of the common equity have been recorded against the next

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 7. Equity Method Investments (Continued)**

layer of the capital structure, in this case, preferred equity. The Company is currently the sole preferred equity holder in Canal 1 and therefore, the Company has recorded nearly 100% of the losses of the joint venture. For the years ended December 31, 2018 and 2017, we recorded $8.4 million and $1.7 million of preferred return, as an offset to losses incurred in loss on equity method investments, respectively. The net balance recorded in equity method investments related to Canal 1 joint venture was $46.7 million and $25.9 million at December 31, 2018 and 2017, respectively, and is included in equity method investments in the accompanying consolidated balance sheets.

On April 28, 2017, we acquired a 25.5% interest in REMEZCLA, a digital media company targeting English speaking and bilingual U.S. Hispanic millennials through innovative content. As of December 31, 2018, we have recorded $5.0 million in equity method funding related to REMEZCLA. We record the income or loss on investment on a one quarter lag. Additionally, we earn a preferred return on the capital funded, which is recorded quarterly as an offset to the loss on the investment. For the year ended December 31, 2018, we recorded a $0.1 million loss, net of preferred return, in loss on equity method investment. For the year ended December 31, 2017, we recorded a $0.0 million gain inclusive of the preferred return, as an offset to loss on equity method investment. For the years ended December 31, 2018 and 2017, we recorded $0.6 million and $0.4 million of preferred return, as an offset to the loss on equity method investments, respectively. The net investment recorded in Equity method investments was $5.0 million at December 31, 2018 and 2017, and is included in equity method investments in the accompanying consolidated balance sheets. We have no additional commitment to fund the operations of the venture, which limits the maximum exposure to loss on our investment in Remezcla to our investment of $5.0 million.

The Company records the income or loss on investment on a one quarter lag. Summary unaudited financial data for our equity investments as of and for the twelve months ended September 30, 2018 are included below *(amounts in thousands):*

| | Equity Investees |
|---|---|
| Current assets | $ 20,999 |
| Non-current assets | 53,453 |
| Current liabilities | 53,145 |
| Non-current liabilities | 90,731 |
| Redeemable stock and non-controlling interests | 14,187 |
| Net revenue | 21,703 |
| Operating loss | (57,387) |
| Net loss | $ (66,819) |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 8. Income Taxes**

For the years ended December 31, 2018 and 2017, Income before provision for income taxes, includes the following components (*amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Domestic income | $ 9,797 | $ 9,984 |
| Foreign loss | (10,323) | (4,714) |
| | $ (526) | $ 5,270 |

For the years ended December 31, 2018 and 2017, income tax expense is comprised of the following *(amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Current income tax expense | $ 9,231 | $ 4,233 |
| Deferred income tax | 1,040 | 14,473 |
| | $ 10,271 | $ 18,706 |

Current tax expense for each of the years ended December 31, 2018 and 2017, includes $1.5 million of foreign withholding tax.

For the years ended December 31, 2018 and 2017, the reconciliation of income tax (benefit) expense computed at the U.S. federal statutory rates to income tax expense is *(amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Income tax (benefit) expense at federal statutory rate US Only | $ (108) | $ 1,852 |
| Income tax expense at federal statutory rate Foreign Only | 3,832 | 1,655 |
| Permanent items | 836 | 829 |
| Return to provision true-ups Current/Deferred | (51) | (223) |
| Foreign rate differential | (141) | 348 |
| Foreign tax credits | (7,890) | (2,733) |
| Foreign valuation allowance | 9,429 | 3,116 |
| Change in FTC valuation allowance | 4,141 | 10,588 |
| Puerto Rico tax rate change | (722) | |
| Tax Cut and Jobs Act law changes | | 2,976 |
| Foreign withholding taxes | 1,499 | 1,535 |
| Deferred foreign tax credit offset | (873) | (1,160) |
| State taxes and state rate change | 374 | 60 |
| UTP adjustment | (55) | (137) |
| Income tax expense | $ 10,271 | $ 18,706 |

Prior year presentation in the table above has been conformed to current year presentation for comparability.

The effective rate for the period ending December 31, 2018, excluding our share of the equity investment in Colombia and return to provision adjustments, was 38%.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 8. Income Taxes (Continued)**

The 2017 Tax Cut and Jobs Act ("Tax Act") was signed into law on December 22, 2017. The Tax Act revised the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35% to 21% in 2018, eliminating certain deductions, imposing a mandatory one-time transition tax, or deemed repatriation tax on accumulated earnings of foreign subsidiaries as of 2017 that were previously tax deferred. The Company generates income in higher tax rate foreign locations, which result in foreign tax credits. The lower federal corporate tax rate reduces the likelihood or our utilization of foreign tax credits created by income taxes paid in Puerto Rico and Latin America, resulting in a valuation allowance.

The Tax Act also establishes new tax provisions that may affect 2018 and future periods, including, but not limited to, generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; establishing a new minimum tax on Global Intangible Low-Taxed Income ("GILTI"), a new Base Erosion Anti-Abuse Tax, and a new U.S. corporate deduction for Foreign-Derived Intangible Income. Potential limitation interest deductibility and changes to performance based compensation exception for highly compensated employees. The Company evaluated and determined that these provisions did not affect the 2018 provision for income taxes.

For the year ended December 31, 2018, the items that significantly affect the differences between the tax provision calculated at the statutory federal income tax rate, are the continued impact of the Tax Act that reduced the federal tax rate to 21%, resulting in a valuation allowance on foreign tax credit carryforwards generated in 2018 and the loss on the Company's equity investment in Colombia, which created a deferred tax asset, requiring an additional $9.4 million valuation allowance. Additionally, increase in deferred tax liabilities in Puerto Rico increased the offsetting deferred tax asset in the U.S.

For the year ended December 31, 2017, the items that significantly affect the differences between the tax provision calculated at the statutory federal income tax rate and the actual tax expense recorded related primarily to the Tax Act that reduced the federal tax rate to 21%, and the loss on the Company's equity investment in Colombia, which created a deferred tax asset against which we established a $3.1 million valuation allowance. The investment in Colombia also impacted the foreign rate differential, as the Colombia tax rate was lower than the federal corporate tax rate in 2017. Increases in deferred tax liabilities in Puerto Rico increased the offsetting deferred tax asset in the U.S. The impact of permanent items as a percentage were higher due to lower income in 2017, but as a dollar amount were actually lower as compared to prior years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities calculated for financial reporting purposes and the amounts calculated for preparing its income tax returns in accordance with tax regulations and the net tax effects of

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 8. Income Taxes (Continued)**

operating loss and tax credits carried forward. Net deferred tax liabilities consist of the following components as of December 31, 2018 and 2017 *(amounts in thousands)*:

| | 2018 | 2017 |
|---|---|---|
| Deferred tax assets: | | |
| Allowances for doubtful accounts | $ 820 | $ 1,308 |
| Deferred branch tax benefit | 11,801 | 10,846 |
| Deferred revenue | 84 | 42 |
| NOL credit and other carryovers | 204 | 111 |
| Fixed assets | 51 | 47 |
| Accrued expenses | 1,123 | 935 |
| Foreign tax credit | 14,729 | 10,588 |
| Stock compensation | 3,613 | 3,081 |
| Pension | 196 | 397 |
| Intangibles | 1,447 | 1,355 |
| Equity method gains and losses | 12,900 | |
| Other DTA | 17 | 438 |
| Less: Foreign income valuation allowance | (12,546) | (3,117) |
| Less: Foreign tax credit valuation allowance | (14,729) | (10,588) |
| Total deferred tax assets | 19,710 | 15,443 |
| Deferred tax liabilities: | | |
| Prepaid expenses | (404) | (328) |
| Intangibles | (15,788) | (17,676) |
| Interest rate swap | (365) | (173) |
| Property and equipment | (6,678) | (1,443) |
| Amortization expense | (11,705) | (9,784) |
| Total deferred tax liabilities | (34,940) | (29,404) |
| | $ (15,230) | $ (13,961) |

The deferred tax amounts mentioned above have been classified on the accompanying consolidated balance sheets at December 31, 2018 and 2017 as follows (*amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Non-current assets | $ 4,290 | $ 4,802 |
| Non-current liabilities | $ 19,520 | $ 18,763 |

At December 31, 2018 and 2017, the Company has foreign tax credit carryforwards for U.S. federal purposes and foreign minimum credits totaling $14.7 million and $10.6 million, respectively, which expire during the years 2021 through 2026. In addition, the impact of foreign tax credits and related valuation allowance had an impact on the tax rate. These tax credits were generated on revenues earned by our channels for airing content in Puerto Rico, and Latin America. The realization of deferred tax assets depends on the generation of sufficient taxable income of the appropriate character and in the appropriate taxing jurisdiction during the future periods in which the related temporary

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 8. Income Taxes (Continued)**

differences become deductible. A valuation allowance is provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized. As the Tax Act significantly reduced the U.S. tax rate to 21%, the Company anticipates generating excess foreign tax credits and would not be able to use its historic foreign tax credits before they expire. As a result, in 2018 and in 2017, the Company recorded a valuation allowance against our foreign tax credits of $14.7 million and $10.6 million, respectively. In addition, the Colombia operations incurred a significant loss in 2018 and 2017 and the Company evaluated the ability to use the created deferred tax assets and recorded a valuation allowance of $12.5 million and $3.1 million against the balance at December 31, 2018 and 2017, respectively. The Company has foreign net operating losses carryforwards related to its Colombia operations totaling $0.6 million and $0.3 million, at December 31, 2018 and 2017, respectively, which expire beginning in 2029.

Upon audit, taxing authorities may prohibit the realization of all or part of an uncertain tax position. The Company regularly assesses the outcome of potential examinations in each of the tax jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. The Company recognizes interest and penalties related to uncertain tax positions, if any, in income tax expense. Upon filing for an accounting method change related to an uncertain tax position in 2017, the Company reduced its uncertain tax position reserve in the amount of $0.1 million for related interest expense. In 2018, the Company received approval of the accounting method change and reversed the respective uncertain tax position. As of December 31, 2018 and 2017, the Company has uncertain tax position reserves of $0 million and $0.3 million, respectively.

**Note 9. Long-Term Debt**

Long-term debt as of December 31, 2018 and 2017 consists of the following (*amounts in thousands*):

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Senior Notes due February 2024 | $ 206,091 | $ 207,642 |
| Less: Current portion | 2,134 | 2,133 |
| | $ 203,957 | $ 205,509 |

On February 14, 2017 (the "Closing Date"), the Borrowers amended the Term Loan Facility (the "Second Amended Term Loan Facility"). The Second Amended Term Loan Facility provides for a $213.3 million senior secured term loan B facility, which matures on February 14, 2024. The Second Amended Term Loan Facility, bears interest at the Borrowers' option of either (i) London Inter-bank Offered Rate ("LIBOR') plus a margin of 3.50% (decreased from a margin of 4.00% under the Term Loan Facility) or (ii) an Alternate Base Rate ("ABR") plus a margin of 2.50% (decreased from a margin of 3.00% under the Term Loan Facility). There is no LIBOR floor (a decrease from a LIBOR floor of 1.00% under the Term Loan Facility). The Second Amended Term Loan Facility, among other terms, provides for an uncommitted incremental loan option (the "Incremental Facility") allowing for increases for borrowings under the Second Amended Term Loan Facility and borrowing of new tranches of term loans, up to an aggregate principal amount equal to (i) $65.0 million plus (ii) an additional amount (the "Incremental Facility Increase") provided, that after giving effect to such Incremental Facility Increase (as well as any other additional term loans), on a pro forma basis, the First Lien Net Leverage Ratio (as defined in the Second Amended Term Loan Facility) for the most

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 9. Long-Term Debt (Continued)**

recent four consecutive fiscal quarters does not exceed 4.00:1.00 and the Total Net Leverage Ratio (as defined in the Second Amended Term Loan Facility) for the most recent four consecutive fiscal quarters does not exceed 6.00:1.00. The First Lien Net Leverage Ratio and the Total Net Leverage Ratio each cap the cash netted against debt up to a maximum amount of $60.0 million (increased from $45.0 million under the Term Loan Facility). Additionally, the Second Amended Term Loan Facility also provides for an uncommitted incremental revolving loan option (the "Incremental Revolving Facility") allowing for an aggregate principal amount of up to $30.0 million, which will be secured on a *pari passu* basis by the collateral securing the Second Amended Term Loan Facility.

The Second Amended Term Loan Facility requires the Borrowers to make amortization payments (in quarterly installments) equal to 1.00% per annum with respect to the Second Amended Term Loan Facility with any remaining amount due at final maturity. The Second Amended Term Loan Facility principal payments commenced on March 31, 2017, with a final installment due on February 14, 2024. Voluntary prepayments are permitted, in whole or in part, subject to certain minimum prepayment requirements.

In addition, pursuant to the terms of the Second Amended Term Loan Facility, within 90 days after the end of each fiscal year, the Borrowers are required to make a prepayment of the loan principal in an amount equal to a percentage of the excess cash flow of the most recently completed fiscal year. Excess cash flow is generally defined as net (loss) income plus depreciation and amortization expense, less mandatory prepayments of the term loan, income taxes and capital expenditures, and adjusted for the change in working capital. The percentage of the excess cash flow used to determine the amount of the prepayment of the loan declines from 50% to 25%, and again to 0% at lower leverage ratios. Pursuant to the terms of the Second Amended Term Loan Facility, our net leverage ratio was 2.5x at December 31, 2018, resulting in an excess cash flow percentage of 0% and therefore, no excess cash flow payment will be due in March 2019.

Pursuant to the terms of the Second Amended Term Loan Facility, in March of 2018, the Company made an excess cash flow payment of $2.1 million. As permitted under the Second Amended Term Loan Facility, the excess cash flow payment was allocated in direct order of maturity, accordingly, we were not required to make the scheduled quarterly loan amortization payments in 2018.

As of December 31, 2018, the original issue discount balance was $1.7 million, net of accumulated amortization of $1.8 million and was recorded as a reduction to the principal amount of the Second Amended Term Loan Facility outstanding as presented on the consolidated balance sheet and will be amortized as a component of interest expense over the term of the Second Amended Term Loan Facility. In accordance with *ASU 2015-15 Interest Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements,* deferred financing fees of $1.3 million, net of accumulated amortization of $2.0 million, are presented as a reduction to the Second Amended Term Loan Facility outstanding at December 31, 2018 as presented on the consolidated balance sheet, and will be amortized as a component of interest expense over the term of the Second Amended Term Loan Facility.

The carrying value of the long-term debt approximates fair value at December 31, 2018 and 2017, and was derived from quoted market prices by independent dealers (Level 2 in the fair value hierarchy

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 9. Long-Term Debt (Continued)**

under *ASC 820, Fair Value Measurements and Disclosures*). The following are the maturities of our long-term debt as of December 31, 2018 (*amounts in thousands*):

| Year Ending December 31, | | |
|---|---|---|
| 2019 | $ | 2,134 |
| 2020 | | 2,133 |
| 2021 | | 2,133 |
| 2022 | | 2,133 |
| 2023 and thereafter | | 200,548 |
| | $ | 209,081 |

**Note 10. Derivative instruments**

We use derivative financial instruments in the management of our interest rate exposure. Our strategy is to eliminate the cash flow risk on a portion of the variable rate debt caused by changes in the designated benchmark interest rate, LIBOR. The Company does not enter into or hold derivative financial instruments for speculative trading purposes.

On May 4, 2017, we entered into two identical pay-fixed, receive-variable, interest rate swaps with two different counter parties, to hedge the variability in the LIBOR interest payments on an aggregate notional value of $100.0 million of our Second Amended Term Loan Facility beginning May 31, 2017, through the expiration of the swaps on June 30, 2022. At inception, these interest rate swaps were designated as cash flow hedges of interest rate risk, and as such, the effective portion of unrealized changes in market value is recorded in Accumulated other comprehensive income ("AOCI"). Any losses from hedge ineffectiveness will be recognized in current operations.

The change in the fair value of the interest rate swap agreements for the years ended December 31, 2018 and 2017, resulted in an unrealized gain of $0.8 million, respectively, and was included in AOCI net of taxes. The Company received $0.1 million of net interest on the settlement of the interest rate swap agreements for the year ended December 31, 2018. The Company paid $0.4 million of net interest on the settlement of the interest rate swap agreements for the year ended December 31, 2017. As of December 31, 2018, the Company estimates that none of the unrealized gain included in AOCI related to these interest rate swap agreements will be realized and reported in operations within the next twelve months. No gain or loss was recorded in operations for the years ended December 31, 2018 and 2017, respectively.

The aggregate fair value of the interest rate swaps was $1.6 million and $0.8 million as of December 31, 2018 and 2017, respectively. These were recorded in Swap assets in non-current assets on the accompanying consolidated balance sheets.

By entering into derivative instrument contracts, we are exposed to counterparty credit risk. Counterparty credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is in an asset position, the counterparty has a liability to us, which creates credit risk for us. We attempt to minimize this risk by selecting counterparties with investment grade credit ratings and regularly monitoring our market position with each counterparty. Our derivative instruments do not contain any credit-risk related contingent features.

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 11. Fair Value Measurements**

Our derivatives are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by us or the counterparty.

The following table presents our assets and liabilities measured at fair value on a recurring basis and the levels of inputs used to measure fair value, which include derivatives designated as cash flow hedging instruments, as well as their location on our accompanying consolidated balance sheets as of December 31, 2018 and 2017 (*amounts in thousands*):

| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | December 31, 2018 | | | |
| **Category** | **Balance Sheet Location** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| *Cash flow hedges:* | | | | | |
| Interest rate swap | Other assets | | $ 1,619 | | $ 1,619 |

| | | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| | | December 31, 2017 | | | |
| **Category** | **Balance Sheet Location** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| *Cash flow hedges:* | | | | | |
| Interest rate swap | Other assets | | $ 773 | | $ 773 |

Certain non-financial assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to periodic impairment tests. These items primarily include long-lived assets, goodwill and other intangible assets. During the years ended December 31, 2018 and 2017, there were no assets and liabilities measured at fair value on a non-recurring basis.

The carrying amounts of cash, accounts receivable and accounts payable approximate fair value because of the short maturity of these items. The carrying value of the long-term debt approximates fair value because this instrument bears interest at a variable rate, is pre-payable, and is at terms currently available to the Company.

**Note 12. Stockholders' equity**

***Capitalization***

***Capital Stock***

As of December 31, 2018, the Company had 19,696,810 shares of Class A common stock, and 19,720,381 shares of Class B common stock, issued and outstanding.

On June 20, 2017, the Company announced that its Board of Directors authorized the repurchase of up to $25.0 million of the Company's Class A common stock, par value $0.0001 per share ("Class A common stock"). Under the Company's stock repurchase program, management is authorized to purchase shares of the Company's common stock from time to time through open market purchases at prevailing prices, subject to stock price, business and market conditions and other factors. During the year ended December 31, 2018, the Company repurchased 199,600 shares of Class A common stock

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 12. Stockholders' equity (Continued)**

under the repurchase program for an aggregate purchase price of $2.4 million. As of December 31, 2018, the Company repurchased 2.0 million shares of Class A common stock under the repurchase program for an aggregate purchase price of $24.4 million, and was recorded as treasury stock on the consolidated balance sheet. As of December 31, 2018, the Company had $0.6 million remaining for future repurchases under the existing stock repurchase program, which expires on May 24, 2019.

On August 15, 2018, the Company announced that its Board of Directors authorized the repurchase of up to an additional $25.0 million of the Company's Class A common stock on an opportunistic basis.

***Voting***

Class B common stock votes on a 10 to 1 basis with the Class A common stock, which means that each share of Class B common stock will have 10 votes and each share of Class A common stock will have 1 vote. The Class B common stock shall be convertible in whole or in part at any time at the option of the holder or holders thereof, into an equal number of Class A common stock. Warrants are not entitled to vote, unless converted into shares of the Company's Class A common stock.

***Equity Incentive Plans***

Effective May 16, 2016, the stockholders of all classes of capital stock of the Company approved at the annual stockholder meeting the Hemisphere Media Group, Inc. Amended and Restated 2013 Equity Incentive Plan (the "2013 Equity Incentive Plan") to increase the number of shares of Class A common stock that may be delivered under the 2013 Equity Incentive Plan to an aggregate of 7.2 million shares of our Class A common stock. At December 31, 2018, 2.7 million shares remained available for issuance of stock options or other stock-based awards under our 2013 Equity Incentive Plan (including shares of restricted Class A common stock surrendered to the Company in payment of taxes required to be withheld in respect of vested shares of restricted Class A common stock, which are available for re-issuance). The expiration date of the 2013 Equity Incentive Plan, on and after which date no awards may be granted, is April 4, 2023. The Company's Board of Directors, or a committee thereof, administers the 2013 Equity Incentive Plan and has the sole and plenary authority to, among other things: (i) designate participants; (ii) determine the type, size, and terms and conditions of awards to be granted; and (iii) determine the method by which an award may be settled, exercised, canceled, forfeited or suspended.

The Company's time-based restricted stock awards and option awards generally vest in three equal annual installments beginning on the first anniversary of the grant date, subject to the grantee's continued employment or service with the Company. The Company's event-based restricted stock awards and option awards generally vest either upon the Company's Class A common stock attaining a $15.00 closing price per share, as quoted on the NASDAQ Global Market, on at least 10 trading days, subject to the grantee's continued employment or service with the Company. Other event-based restricted stock awards granted to certain members of our Board vest on the day preceding the Company's annual shareholder meeting.

***Stock-Based Compensation***

Stock-based compensation expense relates to both stock options and restricted stock. Stock-based compensation expense $3.9 million and $4.1 million for the years ended December 31, 2018 and 2017,

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 12. Stockholders' equity (Continued)**

respectively. At December 31, 2018, there was $0.9 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 1.8 years. At December 31, 2018, there was $1.1 million of total unrecognized compensation cost related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of 0.9 years.

Stock Options

The fair value of stock options granted is estimated at the date of grant using the Black-Scholes pricing model for time-based options and the Monte Carlo simulation model for event-based options. The expected term of options granted is derived using the simplified method under ASC 718-10-S99-1/SEC Topic 14.D for "plain vanilla" options and the Monte Carlo simulation for event-based options. Expected volatility is based on the historical volatility of the Company's competitors given its lack of trading history. The risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The Company has estimated forfeitures of 1.5%, as the awards are to management for which the Company expects lower turnover, and has assumed no dividend yield, as dividends have never been paid to stock or option holders and will not be paid for the foreseeable future.

| Black-Scholes Option Valuation Assumptions | 2018 | 2017 |
|---|---|---|
| Risk-free interest rate | 2.7% - 3.0% | 2.2% |
| Dividend yield | | |
| Volatility | 39.0% - 41.0% | 25.8% |
| Weighted-average expected term (years) | 6.0 | 6.0 |

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 12. Stockholders' equity (Continued)**

The following table summarizes stock option activity for the years ended December 31, 2018 and 2017 *(shares and intrinsic values in thousands):*

| | Number of shares | Weighted-average exercise price | Weighted-average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at December 31, 2016 | 2,920 | $ 11.64 | 7.6 | $ 1,274 |
| Granted | 55 | $ 11.35 | 6.0 | |
| Exercised | | | | |
| Forfeited | (37) | 10.39 | | |
| Expired | (40) | $ 11.51 | | |
| Outstanding at December 31, 2017 | 2,898 | $ 11.62 | 6.5 | $ 1,738 |
| Granted | 109 | $ 12.84 | 6.0 | |
| Exercised | (67) | 13.38 | | |
| Forfeited | (24) | 12.30 | | |
| Expired | (6) | $ 12.10 | | |
| Outstanding at December 31, 2018 | 2,910 | $ 11.62 | 5.6 | $ 2,806 |
| Vested at December 31, 2018 | 2,175 | $ 11.71 | 5.3 | $ 2,102 |
| Exercisable at December 31, 2018 | 2,175 | $ 11.71 | 5.3 | $ 2,102 |

The weighted average grant date fair value of options granted for the years ended December 31, 2018 and 2017 was $5.49 and $3.39. At December 31, 2018, 0.3 million options granted are unvested, event-based options.

Restricted Stock

Certain employees and directors have been awarded restricted stock under the 2013 Equity Incentive Plan. The time-based restricted stock grants vest primarily over a period of three years. The fair value and expected term of event-based restricted stock grants is estimated at the grant date using the Monte Carlo simulation model. The following table summarizes restricted share activity for the years ended December 31, 2018 and 2017 (*shares in thousands*):

| | Number of shares | Weighted-average grant date fair value |
|---|---|---|
| Outstanding at December 31, 2016 | 561 | $ 10.58 |
| Granted | 154 | 11.19 |

| | | | |
|---|---|---|---|
| Vested | (203) | | 11.80 |
| Forfeited | (8) | | 13.38 |
| Outstanding at December 31, 2017 | 504 | $ | 10.23 |
| Granted | 93 | | 11.85 |
| Vested | (218) | | 11.49 |
| Forfeited | (9) | | 11.85 |
| Outstanding at December 31, 2018 | 370 | $ | 9.86 |

**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 12. Stockholders' equity (Continued)**

At December 31, 2018, 0.2 million shares of restricted stock issued are unvested, event-based shares.

**Note 13. Contingencies**

The Company is involved in various legal actions, generally related to its operations. Management believes, based on advice from legal counsel, that the outcome of such legal actions will not adversely affect the financial condition of the Company.

**Note 14. Commitments**

The Company has entered into certain rental property contracts with third parties, which are accounted for as operating leases. Rental expense was $2.2 million and $0.7 million for the years ended December 31, 2018 and 2017, respectively

The Company has certain commitments including various operating leases.

Future minimum payments for these commitments and other commitments, primarily programming and equity method capital contributions, are as follows *(amounts in thousands):*

| Year Ending December 31, | Operating Leases | Other Commitments | Total |
|---|---|---|---|
| 2019 | $ 1,571 | $ 11,961 | $ 13,532 |
| 2020 | 367 | 6,229 | 6,596 |
| 2021 | 350 | 2,846 | 3,196 |
| 2022 | 355 | 489 | 844 |
| 2023 and thereafter | 302 | | 302 |
| Total | $ 2,945 | $ 21,525 | $ 24,470 |

**Note 15. Retirement Plans**

WAPA, a wholly owned subsidiary of the Company, makes contributions to the Televicentro de Puerto Rico Special Retirement Benefits (the "Retirement Plan"). The Retirement Plan is available to all reporters and union employees after completing three (3) months of service. Eligible employees, those meeting active service minimums and minimum age requirements, are eligible to receive a one-time lump sum payment at retirement, of two (2) weeks per year of service capped at a maximum payment of forty-five (45) weeks. The number of retirees is capped at five (5) per year. There are

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 15. Retirement Plans (Continued)**

164 participants in the Retirement Plan. Following is the plan's projected benefit obligation at December 31, 2018 and 2017 *(amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Projected benefit obligation: | | |
| Balance, beginning of the year | $ 2,242 | $ 3,027 |
| Service cost | 89 | 80 |
| Interest cost | 74 | 85 |
| Actuarial (gain) loss | (43) | (469) |
| Benefits paid to participants | | (481) |
| Balance, end of year | $ 2,362 | $ 2,242 |

At December 31, 2018 and 2017, the funded status of the plan was as follows (*amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Excess of benefit obligation over the value of plan assets | $ (2,362) | $ (2,242) |
| Unrecognized net actuarial loss | 290 | 347 |
| Unrecognized prior service cost | 36 | 44 |
| Accrued benefit cost | $ (2,036) | $ (1,851) |

The plan is unfunded. As such, the Company is not required to make annual contributions to the plan.

At December 31, 2018 and 2017, the amounts recognized in the consolidated balance sheets were classified as follows (*amounts in thousands):*

| | 2018 | 2017 |
|---|---|---|
| Accrued benefit cost | $ (2,362) | $ (2,242) |
| Accumulated other comprehensive loss | 326 | 391 |
| Net amount recognized | $ (2,036) | $ (1,851) |

Amounts recorded in accumulated other comprehensive loss are reported net of tax.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 15. Retirement Plans (Continued)**

The benefits expected to be paid in each of the next five years and thereafter are as follows (*amounts in thousands*):

| Years Ending December 31, | Amount |
|---|---|
| 2019 | $ 104 |
| 2020 | 164 |
| 2021 | 266 |
| 2022 | 171 |
| 2023 | 141 |
| 2024 through 2027 | 677 |
| | $ 1,523 |

At December 31, 2018 and 2017, the following weighted-average rates were used:

| | 2018 | 2017 |
|---|---|---|
| Discount rate on the benefit obligation | 3.96% | 3.35% |
| Rate of employee compensation increase(a) | 1.75% - 2.50% | 1.75% - 2.50% |

(a) Rate of employee compensation increase is 1.75% per year through 2021, and 2.5% per year thereafter.

Pension expense for the years ended December 31, 2018 and 2017, consists of the following (*amounts in thousands*):

| | 2018 | 2017 |
|---|---|---|
| Service cost | $ 89 | $ 80 |
| Interest cost | 74 | 85 |
| Expected return on plan assets | | |
| Recognized actuarial loss (gain) | | |
| Amortization of prior service cost | 8 | 8 |
| Net loss amortization | 14 | 1 |
| | $ 185 | $ 174 |

WAPA makes contributions to the Plan, a multiemployer pension plan with a plan year end of December 31 that provides defined benefits to certain employees covered by the main CBA. Our main CBA expires on May 31, 2022 and covers all of our unionized employees except for four employees covered by the other CBA scheduled to expire on June 27, 2019.

The risks in participating in such a plan are different from the risks of single-employer plans, in the following respects:

Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of any other participating employer.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 15. Retirement Plans (Continued)**

If a participating employer ceases to contribute to a multiemployer plan, the unfunded obligation of the plan allocable to such withdrawing employer may be borne by the remaining participating employer.

If WAPA completely or partially withdrew from the Plan, it would be obligated to pay complete or partial withdrawal liability. Under the statutory requirements applicable to withdrawal liability with respect to a multiemployer pension plan, in the event of a complete withdrawal from the Plan, WAPA would be obligated to make withdrawal liability payments to fund its proportionate share of the Plan's UVB's. WAPA's payment amount for a given year would be determined based on its highest contribution rate (as limited by MPRA) and its highest average contribution hours over a period of three consecutive plan years out of the ten-year period preceding the date of withdrawal. To the extent that the prescribed payment amount was not sufficient to discharge WAPA's share of the Plan's UVBs, WAPA's payment obligation would nevertheless end after 20 years of payments (absent a withdrawal that is part of a mass withdrawal, in which case the annual payments would continue indefinitely or until WAPA paid its share of the Plan's UVBs at the time of withdrawal).

WAPA has received Annual Funding Notices, Report of Summary Plan Information, Critical Status Notices ("Notices") and the above-noted Rehabilitation Plan, as defined by the Pension Protection Act of 2006 ("PPA"), from the Plan. The Notices indicate that the Plan actuary has certified that the Plan is in critical and declining status, the "Red Zone", as defined by the PPA and MPRA, due to the projected insolvency of the Plan within the next 19 years. A plan of rehabilitation ("Rehabilitation Plan") was adopted by the Trustees of the Plan ("Trustees") on May 1, 2010 and then updated on November 17, 2015. On May 29, 2010, the Trustees sent WAPA a Notice of Reduction and Adjustment of Benefits Due to Critical Status explaining all changes adopted under the Rehabilitation Plan, including the reduction or elimination of benefits referred to as "adjustable benefits." In connection with the adoption of the Rehabilitation Plan, most of the Plan participating unions and contributing employers (including the Newspaper Guild International and WAPA), agreed to one of the "schedules" of changes as set forth under the Rehabilitation Plan. In 2015, the Plan's Trustee's reviewed the Rehabilitation Plan and the financial projections under the Plan and determined that is was not prudent to continue benefit accruals under the current Plan and that implementation of an updated plan with a new benefit design would be in the best interest of the Plan's participants.

On July 1, 2017, WAPA executed an updated MOA under which it agreed to remain a contributing employer to the Plan through May 31, 2022 and to make contributions to the Plan at a fixed rate of $18.03 per week for each WAPA covered employee during such period (i.e., its contributions per employee will not increase during the term of its CBA or through any period during which a new CBA is entered into, if any).

The contributions required under the terms of the CBA and the effect of the Rehabilitation Plan as described above are not anticipated to have a material effect on the Company's results of operations. However, in the event other contributing employers are unable to, or fail to, meet their ongoing funding obligations, the financial impact on WAPA to contribute to any plan underfunding may be material. In addition, if a United States multiemployer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5.0% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

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**Hemisphere Media Group, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Note 15. Retirement Plans (Continued)**

Pursuant to the last available notice (for the Plan year ended December 31, 2017), WAPA's contributions to the Plan exceeded 5% of total contributions made to the Plan.

Further information about the Plan is presented in the table below (*amounts in thousands*):

| Pension Fund | EIN | Pension Protection Act Zone Status 2017 | Funding Improvement Plan/Rehabilitation Plan Status | WAPA's Contribution 2018 | WAPA's Contribution 2017 | Surcharge Imposed | Expiration Date of Collective Bargaining Agreements |
|---|---|---|---|---|---|---|---|
| TNGIPP (Plan No. 001) | 52-1082662 | Red | Implemented | $ 138 | $ 149 | No | June 27, 2019<br>May 31, 2022 |