STRATUS PROPERTIES INC
Form 4
September 04, 2013

FORM 4

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

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Porter Charles W.

(Last) (First) (Middle)

212 LAVACA STREET, SUITE 300

(Street)

AUSTIN, TX 78701

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
STRATUS PROPERTIES INC [STRS]

3. Date of Earliest Transaction (Month/Day/Year)
09/01/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	09/01/2013		A (2)		2,000	A	$ 0	4,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Porter Charles W. 212 LAVACA STREET SUITE 300 AUSTIN, TX 78701				

Signatures

Kelly C. Simoneaux on behalf of Charles W. Porter pursuant to a power of attorney	09/04/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Amount beneficially owned following the reported transaction includes 3,500 Common Stock Restricted Stock Units.

(2) Grant of Common Stock Restricted Stock Units.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ty 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 stock and Warrants.

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 and Warrants 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) or Warrants in the public market, or investors perceive that these sales could occur, the market price of our Class A common stock and Warrants 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 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 and Warrants) 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 Warrants 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 or Warrants.

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 Warrants and impair our ability to raise capital through the sale of additional equity securities.

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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.

Warrants may be exercised in the future, which would increase the number of shares eligible for future resale in the public market and result in dilution to our stockholders.

We issued Warrants to certain holders upon the consummation of the Transaction. To the extent such Warrants are exercised, additional shares of our Class A common stock will be issued, which will result in dilution to the holders of our common stock and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares in the public market could adversely affect the market price of our Class A common stock. For the year ended December 31, 2015, 10,000 Warrants had been exercised into 5,000 additional shares of our Class A common stock.

Pursuant to the terms of the agreements governing our Warrants, a warrantholder may exercise its Warrants for only a whole number of shares of our Class A common stock and such Warrants, are subject to redemption rights.

Pursuant to the terms of the agreements governing our Warrants, a warrantholder may exercise its Warrants only for a whole number of shares of our Class A common stock. This means that only an even number of warrants may be exercised at any given time by the warrantholder. For example, if a warrantholder holds one Warrant to purchase one-half of a share of our Class A common stock, such Warrant shall not be exercisable. If a warrantholder holds two Warrants, such Warrants will be exercisable for one share of our Class A common stock. We will not pay cash in lieu of fractional Warrants and will not cash-settle any Warrants. Additionally, our Warrants, other than certain Warrants held by the holders of our Class B common stock and former affiliates of Azteca Acquisition Corporation, are subject to redemption, in our sole discretion, when the price of our Class A common stock trades at or above $18.00 per share for a specified trading period as set forth in the agreement governing our Warrants.

***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 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. 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

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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 2000 Ponce de Leon Blvd., Coral Gables, FL 33134. In 2016, we expect to relocate 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 on a month-to-month tenancy, which shall terminate upon our relocation. The lease for our new headquarters will commence upon our occupancy.

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 also lease the land for our transmission towers in Cayey, Puerto Rico, Jayuya, Puerto Rico and Mircao, Puerto Rico pursuant to long-term lease facilities.

We believe WAPA current facilities are adequate to meet our needs in the foreseeable future. If necessary, we may, from time to time, downsize current facilities or lease additional facilities for our activities. We own our property in San Juan, Puerto Rico.

The following table sets forth our principal places of business at December 31, 2015:

Location	Description	Area (Square Feet)
Coral Gables, FL	Headquarters	5,243
San, Juan, Puerto Rico	Administrative Offices, TV Production	66,500

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 11, 2016, there were 15,635,655 shares of Class A common stock outstanding, and the closing sale price of our ordinary shares was $13.69. Also as of that date, we had approximately 17 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 do not anticipate paying dividends on our Class A common stock or Class B common stock in the foreseeable future. Our 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, 2015		
First Quarter	$ 14.49	$ 11.92
Second Quarter	$ 13.25	$ 11.69
Third Quarter	$ 15.10	$ 11.74
Fourth Quarter	$ 15.19	$ 12.86

	High	Low
Fiscal Year ended December 31, 2014		
First Quarter	$ 12.87	$ 9.83
Second Quarter	$ 14.36	$ 10.87
Third Quarter	$ 12.97	$ 10.65
Fourth Quarter	$ 13.69	$ 10.51

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, 2015:

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		$	
Equity compensation plans not approved by security holders	2,043,334	$ 11.49	804,080
Total	**2,043,334**	**$ 11.49**	**804,080**

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On April 9, 2013, our board of directors approved the adoption of the Hemisphere Media Group, Inc. 2013 Equity Incentive Plan (the "2013 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 2013 Plan authorizes the issuance of up to 4 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 2013 Plan above are qualified in their entirety by reference to the full text of the 2013 Plan.

Purchase of Equity Securities

The following table sets information with respect to Warrants repurchased during the quarter ended December 31, 2015. The Warrants were repurchased from one holder in one privately negotiated transaction. None of the Warrants in this table were repurchased directly from any of our officers or directors. We made no other repurchase of Warrants for the year ended December 31, 2015.

Period	Total number of Warrants	Average price paid per Warrant	Total number of Warrants purchased as part of publicly announced plans or programs (a)	Maximum number (or approximate dollar value) of Warrants that may yet be purchased under the plans or programs (b)
October 1 - 31				
November 1 - 30				
December 1 - 31	1,337,008	1.33		
Total	**1,337,008**	**$ 1.33**		

(a)(b) We did not authorize any public plan or program for the quarter or year ended December 31, 2015.

Performance Graph

The following graph compares the performance of our Class A common stock with the performance of the S&P 500 and a peer group index of companies that we believe are closest to ours (the "Peer Group Index") by measuring the changes in our Class A common stock prices from April 5, 2013, through December 31, 2015. Because no published index of comparable media companies currently reports values on a dividends-reinvested basis, we have created a Peer Group Index for purposes of this graph in accordance with the requirements of the Commission. The Peer Group Index is made up of companies that engage in the broadcast and cable television programming as a significant element of their business, although not all of the companies included in the Peer Group Index participate in all of the lines of business in which we are engaged, and some of the companies included in the Peer Group Index also engage in lines of business in which we do not participate. Additionally, the market capitalizations of many of the companies included in the Peer Group Index are quite different from ours. The common stock of the following companies has been included in the Peer Group Index: AMC Networks Inc., Discovery Communications Inc., Entravision Communications Corporation, Scripps Networks Interactive, Inc. and Starz, LLC. The chart assumes $100 was invested on April 5, 2013 in each of our Class A common stock, S&P 500 and in a peer group weighted by market capitalization at the beginning of the period.

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Hemisphere Stock Performance vs. Peer Index

Source: Capital IQ

Note: Peer Index includes; AMC Networks, Discovery Communications, Entravision Communications, Scripps Networks Interactive, and Starz

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section. It may only be incorporated by reference in another filing under the Exchange Act or Securities Act of 1933, as amended, if such subsequent filing specifically references this filing.

Recent Sales of Unregistered Securities

None.

Item 6. Selected Financial Data.

The following table sets forth our selected historical consolidated financial information for the periods presented. The selected financial information for the fiscal years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements and the selected financial data as of December 31, 2012 and 2011 and for each of the two fiscal years then ended, have been derived from WAPA Holdings' audited consolidated financial statements.

The financial information indicated may not be indicative of future performance. This financial information and other data should be read in conjunction with our audited and unaudited consolidated

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financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

	2015	2014	2013	2012	2011
Selected Statement of Operations Information:					
(amounts in thousands expect per share data)					
Net revenues	$ 129,790	$ 111,989	$ 86,005	$ 71,367	$ 60,797
Operating income	34,867	26,027	7,722	20,866	15,402
Income (loss) before income taxes	22,781	12,986	(1,167)	17,315	11,588
Income tax expense	(9,042)	(2,429)	(3,130)	(6,285)	(3,984)
Net income (loss)	$ 13,739	$ 10,557	$ (4,297)	$ 11,030	$ 7,604
Basic net income (loss) per share	$ 0.32	$ 0.25	$ (0.14)	$ 11,030	$ 7,604
Diluted net income (loss) per share	$ 0.31	$ 0.25	$ (0.14)	$ 11,030	$ 7,604
Weighted average shares outstanding					
Basic	42,840	42,321	31,143	1	1
Diluted	43,802	42,622	31,143	1	1
Selected Balance Sheet Information:					
Cash	$ 179,532	$ 142,010	$ 176,622	$ 10,084	$ 10,183
Goodwill	164,887	164,887	130,794	10,983	10,983
Other intangibles	78,185	91,611	34,610	1,678	1,908
Other assets	128,546	119,889	108,094	93,113	93,873
Total assets	551,150	518,397	450,120	115,858	116,947
Total liabilities	272,509	261,984	209,332	76,199	82,562
Total stockholders' equity	278,641	256,413	240,788		
Total member's capital				39,659	34,385

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.

On April 4, 2013, we completed a series of mergers contemplated pursuant to the Agreement and Plan of Merger, dated as of January 22, 2013, which we refer to as the Transaction. The Transaction was accounted for by applying the acquisition method pursuant to ASC Topic 805-10, "Business Combinations Overall." WAPA Holdings was the accounting acquirer and predecessor in the Transaction whose historical results became our historical results for all periods prior to April 4, 2013.

On April 1, 2014, we closed on the Cable Networks Acquisition. Accordingly, the operating results of the Cable Networks Acquisition are included in our operating results as of the date of the acquisition.

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, 2015 compared

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to the year ended December 31, 2014, and for the year ended December 31, 2014 compared to the year ended December 31, 2013.

Liquidity and Capital Resources. The liquidity and capital resources section provides a discussion of our cash flows for the year ended December 31, 2015 compared to the year ended December 31, 2014, and for the year ended December 31, 2014 compared to the year ended December 31, 2013.

OVERVIEW

We are the parent holding company of WAPA Holdings, Cinelatino and Azteca. While we were formed on January 16, 2013 for purposes of effecting the Transaction, the Transaction was consummated on April 4, 2013. Azteca, a special purpose acquisition vehicle, delivered approximately $70 million from a trust account raised in its 2011 initial public offering to us at the closing of the Transaction. After the consummation of the Transaction, Azteca engaged in no further operations and was subsequently dissolved on December 31, 2013.

On April 1, 2014, we acquired the assets of the following three Spanish-language cable television networks: Pasiones, Centroamerica TV and Television Dominicana, which we refer to as the Acquired Cable Networks.

We operate our business in one operating segment. We own and operate the following leading Spanish-language Networks and content platform:

Cinelatino: the leading Spanish-language cable movie network with over 16 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, the U.S. and Spain. Driven by the strength of its programming and distribution, Cinelatino is the #1-rated Spanish-language cable movie network in the U.S. and the #2-rated Spanish-language cable television network in the U.S. overall;

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 for the last seven years. WAPA is Puerto Rico's news leader and the largest local producer of entertainment programming, producing over 75 hours each week. Through its multicast signal, WAPA distributes WAPA2 Deportes, a leading sports television network in Puerto Rico, featuring *MLB*, *NBA* and professional sporting events from Puerto Rico. Additionally, we operate WAPA.TV, the leading broadband news and entertainment Web site 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 United States. WAPA America's programming includes over 75 hours of news and entertainment programming produced by WAPA. WAPA America is distributed in the U.S. to over 5.0 million 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 the best novelas licensed from the most popular television networks. Pasiones has over 14 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 4.0 million subscribers; and

Television Dominicana: a cable television network targeting Dominicans living in the U.S. Television Dominicana features the most popular news and entertainment from the Dominican Republic, as well as the professional winter baseball league from the Dominican Republic. Television Dominicana is distributed in the U.S. to 3.0 million subscribers.

Our two primary sources of revenue are advertising revenues and retransmission/subscriber fees. 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 we benefit from increased advertising sales in an election year. For example, in 2012, we experienced higher advertising sales as a result of political advertising spending during the 2012 governmental elections.

Retransmission and subscriber fees are charged to distributors of our Networks, including cable, satellite and telecommunication service providers, pursuant to multi-year agreements. We believe our Networks are well positioned to continue further growth in our retransmission and subscriber fees, fueled by our Networks' strong ratings, continued growth in our target demographic audiences and robust content portfolio. 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 subscriber fees will, to a certain extent, be dependent on the growth in subscribers of the cable, satellite and telecommunication service providers distributing our Networks, and new system launches, particularly in Latin America.

We generate over 90% of our net revenue from the United States. For the years ended December 31, 2015, 2014 and 2013, we generated $120.6 million, $103.7 million and $81.7 million, respectively, from the United States. For the years ended December 31, 2015, 2014 and 2013, we generated $9.2 million, $8.3 million and $4.1 million, respectively, from outside the United States.

All of our Networks derive revenues from retransmission/subscriber fees and from advertising, including Cinelatino, which introduced advertising in July 2015.

WAPA has been the #1-rated broadcast television network in Puerto Rico for the last seven years 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 retransmission fees. WAPA's primetime household rating in 2015 was nearly four times higher than the most highly rated English-language U.S. broadcast network in the U.S., CBS, and higher than the combined ratings of CBS, NBC, ABC, FOX and the CW. As a result of its ratings success in the last seven years, management believes WAPA is well positioned for future growth in retransmission fees, similar to the growth in retransmission fees that the four major U.S. networks have experienced in the U.S. (ABC, CBS, NBC and Fox).

WAPA America, Cinelatino, Pasiones, Centroamerica TV and Television Dominicana occupy a valuable and unique position as they are among the few 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. Cinelatino and WAPA America are presently rated by Nielsen.

Hispanics represent over 17% of the total U.S. population and approximately 10% of the total U.S. buying power, but only 7% of the aggregate media spend targets U.S. Hispanics. 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. U.S. Hispanic cable network advertising revenue grew at a 13% CAGR from 2009 to 2015, more than doubling from

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$204 million to $436 million. Going forward, U.S. Hispanic cable advertising is expected to continue to grow at a 13% CAGR from 2015 to 2019, outpacing forecasted growth for U.S. cable advertising, U.S. Hispanic broadcast advertising and U.S. general market broadcast advertising.

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 Department estimated that over 55 million Hispanics resided in the United States in 2014, representing an increase of approximately 20 million people between 2000 and 2014, and that number is projected to grow to 70 million by 2025. Hispanic television households grew by 35% during the period from 2006 to 2016, from 11.2 million households to 15.1 million households. Similarly, Hispanic pay-TV subscribers increased 53% since 2006 to 12.1 million subscribers in 2016. The continued long-term growth of Hispanic television households and pay-TV subscribers creates a significant opportunity for WAPA America and Cinelatino.

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 and rising disposable incomes, as well as investments in network infrastructure resulting in improved service and performance, pay-TV subscribers in Latin America (excluding Brazil) grew by 32% from 2012 to 2015, and are projected to grow an additional 15 million from 51 million in 2015 to 66 million by 2020 representing projected growth of approximately 29%. Furthermore, Cinelatino and Pasiones are each presently distributed to only 23% and 20%, respectively, of total pay-TV subscribers throughout Latin America. Accordingly, growth through new system launches represents a significant growth opportunity. Management believes Cinelatino and Pasiones have widespread appeal throughout Latin America, and therefore will be able to expand distribution throughout the region.

MVS, one of our stockholders, provides operational and technical services to Cinelatino pursuant to several agreements. Upon consummation of the Transaction, certain of the agreements were amended or terminated to what management believes to be to the benefit of Cinelatino. As consideration for the terminated agreement, we made a one-time payment of $3.8 million to MVS. An agreement which had granted MVS the exclusive right to distribute the service in the U.S. was terminated upon consummation of the Transaction. We have assumed responsibility for those activities previously provided by MVS, given the resources of WAPA that will be available to us, thus having no impact on Cinelatino's operations. A similar agreement which had granted MVS the exclusive right to distribute the service throughout Latin America was amended upon consummation of the Transaction so that MVS's rights would be on a non-exclusive basis, except for distribution agreements then in effect. Management believes that the amendment to this agreement will not impact Cinelatino's current distribution, and should enhance Cinelatino's ability to drive new distribution in Latin America. MVS has terminated this agreement effective February 29, 2016. Also upon consummation of the Transaction, Cinelatino's affiliation agreement with Dish Mexico (an affiliate of MVS), pursuant to which Dish Mexico distributes the network and Cinelatino receives revenue, was extended through August 1, 2017.

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CONSOLIDATED RESULTS OF OPERATIONS

Comparison of Consolidated Operating Results for the Years Ended December 31, 2015 and December 31, 2014 (amounts in thousands)

	Years Ended December 31,		$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	2015	2014		
Net revenues	**$ 129,790**	**$ 111,989**	**$ 17,801**	**15.9%**
Operating Expenses:				
Cost of revenues	41,189	36,450	(4,739)	(13.0)%
Selling, general and administrative	36,037	31,608	(4,429)	(14.0)%
Depreciation and amortization	17,218	16,552	(666)	(4.0)%
Other expenses	446	1,282	836	65.2%
Loss on disposition of assets	33	70	37	52.9%
Total Operating Expenses	94,923	85,962	(8,961)	(10.4)%
Operating Income	34,867	26,027	8,840	34.0%
Other Expenses:				
Interest expense, net	(12,086)	(11,925)	(161)	(1.4)%
Loss on extinguishment of debt		(1,116)	1,116	100.0%
	(12,086)	(13,041)	955	7.3%
Income before Income Taxes	22,781	12,986	9,795	75.4%
Income tax expense	(9,042)	(2,429)	(6,613)	NM
Net Income	**$ 13,739**	**$ 10,557**	**$ 3,182**	**30.1%**

NM = not meaningful

Net Revenues

Net revenues for the year ended December 31, 2015 were $129.8 million, an increase of 16%, compared to net revenues of $112.0 million for the same period in 2014. This increase was primarily driven by growth in advertising revenues and higher subscriber and retransmission fees. The growth in revenue was also a result of the inclusion of the operating results of the Acquired Cable Networks for a full year, which were acquired on April 1, 2014.

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, 2015, cost of revenues increased $4.7 million, or 13%. This increase was due to the inclusion of the Acquired Cable Networks, which were not included in the prior year's first quarter, and increased investment in programming, consistent with our previously stated strategy.

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, 2015, selling, general and administrative expenses increased $4.4 million, or 14%, due primarily to the inclusion of the operating results of the Acquired Cable Networks, which were not included in the prior year's first quarter. This increase was also driven by higher sales and marketing expenses as we launched advertising on

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Cinelatino, as well as higher salaries, as we expand our infrastructure to support the growth of our business.

Depreciation and Amortization: Depreciation and amortization expense consists of depreciation of fixed assets and amortization of intangibles. For the year ended December 31, 2015, depreciation and amortization expense increased $0.7 million, or 4.0%, primarily due to an additional quarter of amortization of intangible assets related to the Acquired Cable Networks, which was not included in the prior year's first quarter, offset in part by the decline in amortization of intangible assets in the current year due to the expiration of the useful lives of certain intangibles.

Other Expenses: Other expenses include legal and financial advisory fees, and other fees incurred in connection with corporate finance activities, including debt and equity financings, and acquisition activities. For the year ended December 31, 2015, other expenses decreased $0.8 million, or 65%, due to higher costs incurred in connection with the Cable Networks Acquisition and refinancing of our Term Loan Facility in the prior year as compared to the fees incurred in connection with the secondary equity offering in the current year.

Loss on Disposition of Assets: Loss on disposition of assets reflects losses on disposal of equipment no longer used in our operations.

Other Expenses

Other expenses consist primarily of interest expense. For the year ended December 31, 2015, other expenses decreased by $1.0 million, or 7%. The decrease was primarily due to the loss on extinguishment of debt incurred in the prior year in connection with the refinancing of our Term Loan Facility, offset in part by higher interest expense due to an increase in the average balance of our Term Loan Facility.

Income Tax Expense

Income tax expense increased $6.6 million due to an increase in income before taxes of $9.8 million for the year ended December 31, 2015. The increase in income tax expense was also due to the reversal in the prior year's second quarter of a $2.5 million valuation allowance related to foreign tax credits. For more information, see Note 6, "Income Taxes" of Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

Net Income

Net income increased $3.2 million for the year ended December 31, 2015.

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CONSOLIDATED RESULTS OF OPERATIONS

Comparison of Consolidated Operating Results for the Years Ended December 31, 2014 and December 31, 2013

	Years Ended December 31, 2014	Years Ended December 31, 2013	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
Net revenues	**$ 111,989**	**$ 86,005**	**$ 25,984**	**30.2%**
Operating Expenses:				
Cost of revenues	36,450	33,950	(2,500)	(7.4)%
Selling, general and administrative	31,608	29,678	(1,930)	(6.5)%
Depreciation and amortization	16,552	8,762	(7,790)	(88.9)%
Other expenses	1,282	5,694	4,412	77.5%
Loss on disposition of assets	70	199	129	NM
Total Operating Expenses	85,962	78,283	(7,679)	(9.8)%
Operating Income	26,027	7,722	18,305	237.0%
Other Expenses:				
Interest expense, net	(11,925)	(7,240)	(4,685)	(64.7)%
Loss on extinguishment of debt	(1,116)	(1,649)	533	32.3%
	(13,041)	(8,889)	(4,152)	(46.7)%
Income (Loss) before Income Taxes	12,986	(1,167)	14,153	1,212.8%
Income tax expense	(2,429)	(3,130)	701	22.4%
Net Income (Loss)	**$ 10,557**	**$ (4,297)**	**$ 14,854**	**345.7%**

Net Revenues

Net revenue for the year ended December 31, 2014 was $112.0 million, an increase of 30%, compared to net revenue of $86.0 million for the same period in 2013. This increase is primarily a result of the inclusion of the operating results of the Acquired Cable Networks, which were acquired on April 1, 2014, and the inclusion in 2014 of a full year of results of Cinelatino, which was acquired in the Transaction on April 4, 2013. The growth in revenue was also driven by growth in subscriber and retransmission fees across all of our Networks.

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, 2014, cost of revenues increased $2.5 million, or 7%. This increase was due to the inclusion of the operating results of the Acquired Cable Networks and Cinelatino, offset in part by savings as a result of the decision not to produce *Idol Puerto Rico* in 2014.

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, 2014, selling, general and administrative expenses increased $1.9 million, or 7%, due primarily to the inclusion of the operating results of the Acquired Cable Networks, as well as the inclusion of Cinelatino and corporate overhead and public company charges, which were not included in the prior year's first calendar quarter. This increase was offset in part by a $1.3 million decline in stock-based compensation expense, and a one-time $3.8 million charge incurred in 2013 in connection with the Transaction.

Explanation of Responses:

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Depreciation and Amortization: Depreciation and amortization expense consists of depreciation of fixed assets and amortization of intangibles. For the year ended December 31, 2014, depreciation and amortization expense increased $7.8 million. The increase was due primarily to amortization of intangibles identified as a result of the Cable Networks Acquisition and the Transaction.

Other Expenses: Other expenses includes legal and financial advisory fees incurred in connection with the Cable Networks Acquisition and the Transaction, and financing costs incurred in connection with the refinancing of our Term Loan Facility. For the year ended December 31, 2014, other expenses decreased $4.4 million. The decrease was due to higher legal and financial advisory fees and expenses incurred in connection with the Transaction and Cable Networks Acquisition in 2013, as compared to costs incurred in connection with the Cable Networks Acquisition and refinancing of our Term Loan Facility in 2014.

Loss on Disposition of Assets: Loss on disposition of assets decreased $0.1 million during the year ended December 31, 2014 due to a decline in losses on disposal of equipment no longer used in our operations.

Other Expenses

Other expenses consist primarily of interest expense. For the year ended December 31, 2014, other expenses increased by $4.2 million. The increase was due to a $4.7 million increase in interest expense as a result of increases in our Term Loan Facility to $175 million in July 2013 and to $225 million in July 2014. This increase was partially offset by a $0.5 million decline in loss on extinguishment of debt in connection with our Term Loan Facility.

Income Tax Expense

Income tax expense decreased $0.7 million for the year ended December 31, 2014. The decrease was primarily due to the reversal in the second quarter of 2014 of the valuation allowance related to foreign tax credits recorded in the third quarter of 2013. For more information, see Note 6, "Income Taxes" of Notes to our Consolidated Financial Statements included elsewhere in this Annual Report.

Net Income (Loss)

Net income increased $14.9 million for the year ended December 31, 2014.

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, 2015, the Company had $179.5 million of cash on hand. Our primary uses of cash include the production and acquisition of programming, operational costs, personnel costs, equipment purchases, interest payments on our outstanding debt and income tax payments and may be used to fund acquisitions.

Management believes cash on hand and cash flow from operations will be sufficient to meet its 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.

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Cash Flows

	Years Ended December 31,		
	2015	**2014**	**2013**
Amounts in thousands			
Cash provided by (used in):			
Operating activities	$ 42,192	$ 23,274	$ 6,993
Investing activities	(5,355)	(104,852)	(1,786)
Financing activities	685	46,966	161,331
Net increase (decrease) in cash	$ 37,522	$ (34,612)	$ 166,538

Comparison for the Year Ended December 31, 2015 and December 31, 2014

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, 2015 was $42.2 million as compared to $23.3 million in the same period in 2014, due primarily to a $3.2 million increase in net income, a $0.5 million increase in non-cash items and a $15.3 million increase in net working capital. Non-cash items increased primarily as a result of a $1.3 million increase in programming amortization, a $0.7 million increase in depreciation and amortization expense, and a $0.5 million increase in the provision for bad debt, offset in part by a $1.1 million decrease in loss on extinguishment of debt and a $0.3 million decline in stock-based compensation.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2015 was $5.4 million, as compared to net use of cash of $104.9 million in the same period in 2014. The decline in cash used by investing activities is primarily due to the Cable Networks Acquisition in 2014, which was funded with $101.9 million from cash on our balance sheet, offset in part by an increase in capital expenditures of $2.4 million.

Financing Activities

For the year ended December 31, 2015, cash provided by financing activities was $0.7 million, as compared to $47.0 million in the same period in 2014. This decrease is primarily due to the $47.9 million of net proceeds from the refinancing of our Term Loan Facility on July 31, 2014, principal debt payments made during 2015 of $2.3 million and repurchases of warrants in 2015 of $1.8 million, offset in part by net proceeds from the secondary equity offering in May 2015 of $5.4 million and net proceeds from the exercise of warrants and stock options of $0.2 million. For more information, see Note 7, "Long-Term Debt" of Notes to the Consolidated Financial Statements, included in this Annual Report on Form 10-K.

Comparison for the Year Ended December 31, 2014 and December 31, 2013

Operating Activities

Cash provided by operating activities is primarily driven by our net income (loss), adjusted for non-cash items and changes in working capital. Non-cash items consist primarily of depreciation of

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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, 2014 was $23.3 million as compared to $7.0 million in the same period in 2013, due to a $14.9 million increase in net income, and $3.6 million increase in non-cash items, offset in part by a $2.1 million increase in net working capital. Non-cash items increased primarily as a result of a $7.8 million increase in amortization of intangibles as a result of the Transaction and Cable Networks Acquisition, and a $1.0 million increase in programming amortization, offset in part by a $3.8 million decrease in deferred taxes, a $1.3 million decrease in stock-based compensation, a $0.5 million decrease in loss on early extinguishment of debt, and a $0.3 million increase in bad debt expense.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2014 was $104.9 million, as compared to net use of cash of $1.8 million in the same period in 2013. The increase in cash used was due primarily to the Cable Networks Acquisition, which was funded with $101.9 million from cash on our balance sheet.

Financing Activities

For the year ended December 31, 2014, cash provided by financing activities was $47.0 million, as compared to $161.3 million in the same period in 2013. This decrease was due to $82.4 million of cash proceeds from the Transaction and $79.8 million of net cash proceeds from our Term Loan Facility in the prior year period, offset by $47.9 million of net proceeds from the refinancing of our Term Loan Facility in 2014. For more information, see Note 7, "Long-Term Debt" of Notes to the Consolidated Financial Statements, included in this Annual Report on Form 10-K.

Discussion of Indebtedness

On July 30, 2013, certain of our subsidiaries (the "Borrowers") entered into a credit agreement providing for a $175.0 million senior secured term loan B facility, which we refer to as the Term Loan Facility, which matures on July 30, 2020. On July 31, 2014, certain of our subsidiaries amended the Term Loan Facility, which we refer to as the Amended Term Loan Facility, and which provides for an aggregate principal amount of $225.0 million and matures on July 30, 2020. The Amended Term Loan Facility also provides an uncommitted accordion option (the "Incremental Facility") allowing for additional borrowings under the Term Loan Facility up to an aggregate principal amount equal to (i) $40.0 million plus (ii) an additional amount of up to 4.0x first lien net leverage. Additionally, the Amended Term Loan Facility provides for an uncommitted incremental revolving loan option in an aggregate principal amount of up to $20.0 million, which shall be secured on a *pari passu* basis by the collateral securing the Amended Term Loan Facility. The Amended Term Loan Facility is secured by a first-priority perfected security interest in substantially all of our assets.

The Amended Term Loan Facility bears interest at the Borrowers' option of either (i) LIBOR plus a margin of 4.00% (subject to a LIBOR floor of 1.00%) or (ii) or an Alternate Base Rate ("ABR") plus a margin of 3.00% (subject to an ABR floor of 2.00%) and was issued with 0.5% of original issue discount. The Amended Term Loan Facility requires the Borrowers to make amortization payments (in quarterly installments) equal to 1.00% per annum with respect to the Amended Term Loan Facility with any remaining amount due at final maturity. Voluntary prepayments are permitted, in whole or in part, subject to certain minimum prepayment requirements; provided that any prepayments made, prior to the date that is twelve months from the closing of the Term Loan Facility, for the purpose of repricing or effectively repricing the Amended Term Loan Facility includes a 1.00% prepayment premium.

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The obligations under the Amended Term Loan Facility are guaranteed by HMTV, LLC, and all of Hemisphere Media Holdings, LLC's ("Holdings") existing and future direct and indirect domestic subsidiaries (subject to certain exceptions in the case of immaterial subsidiaries). The Amended Term Loan Facility is secured by a first-priority perfected security interest in substantially all of the assets of HMTV, Holdings and its restricted subsidiaries.

The Amended Term Loan Facility does not have any financial covenants other than (i) a Total Net Leverage Ratio of 6 to 1, determined on a pro forma basis after giving aggregate effect to any Incremental Facility, new term loans or new incremental notes that would apply and (ii) a First Lien Net Leverage Ratio (as defined in the credit agreement) of 4.00:1.00, determined on a pro forma basis after giving aggregate effect to any Incremental Facility, new term loans or new incremental notes.

The lenders have the ability, subject to certain rights of the Borrowers to cure periods, to accelerate loan payment dates and charge default interest rates for certain breaches by the Borrowers of their covenants and other obligations under the Amended Term Loan Facility.

In July 2014, we recorded a $1.1 million loss on the early extinguishment of debt; $0.7 million related to deferred costs and $0.4 million related to Original Issue Discount. Additionally, we incurred $1.0 million of deferred financing costs related to the Amended Term Loan Facility. See Note 7 to the accompanying consolidated financial statements included in Item 15, "Exhibits, Financial Statements and Schedules" in this Annual Report on Form 10-K.

In addition, pursuant to the terms of the Amended Term Loan Facility, the earlier of the delivery of the financial statements for each fiscal year and 90 days after the end of each fiscal year (commencing with the fiscal year ending December 31, 2015), the Borrowers are required to make a prepayment of the loan principal in an amount equal to 50% 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, interest charges, 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.

The excess cash flow as defined in the Term Loan Facility will require a payment of approximately $8.3 million, which will be paid upon filing of this Form 10-K in March 2016. As permitted under the Term Loan Facility, the excess cash flow payment will be allocated at our election and in direct order of maturity. Accordingly, we will not be required to make the scheduled quarterly loan amortization payments for several quarters. As a result, the excess cash flow payment represents the current portion of long-term debt shown on the balance sheet as of December 31, 2015.

As of December 31, 2015, we have made principal payments of $2.3 million on all existing indebtedness throughout the year.

The foregoing description is not complete and is qualified in its entirety by reference to the full text of the Credit Agreement and Guaranty Agreement, each filed as exhibits to this Annual Report on Form 10-K.

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Contractual Obligations

Our contractual obligations as of December 31, 2015 are as follows *(amounts in thousands)*:

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Long-term debt obligations, including current portion(1)	$ 221,625	$ 8,278	$	$ 213,347	$
Operating lease obligations	2,552	296	771	641	844
Interest(2)	48,963	10,771	21,335	16,857	
Other commitments(3)	14,958	7,093	5,974	1,881	10
Total	$ 288,098	$ 26,438	$ 28,080	$ 232,726	$ 854

(1) Excludes interest, original issue discount related to debt and any future excess cash payments.

(2) While variable interest debt, forecasted interest obligation calculated using the current rate of interest at December 31, 2015.

(3) Includes programming commitments which are not yet available and are not included on the balance sheet.

Additionally, at December 31, 2015, our proportionate share of the projected benefit obligation of the Newspaper Guild International Pension Plan (the "Plan") exceeded plan assets by $2.9 million as the Plan is unfunded. Estimates of our future obligation are primarily dependent on future interest rates, future regulatory law changes and future collective bargaining agreements covering the Plan participants.

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 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

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application, see Note 1 to the accompanying consolidated financial statements included in Item 15, "Exhibits, Financial Statements and Schedules" in this Annual Report on Form 10-K.

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

Interest Rate Risk

We finance our capital needs through our Amended Term Loan Facility at our indirect wholly-owned subsidiary, Hemisphere Media Holdings, LLC.

The variable-rate of interest on the Amended Term Loan Facility exposes us to market risk for changes in interest rates. Loans thereunder bear interest at rates that vary with changes in prevailing market rates. With respect to the Amended Term Loan Facility, we do not speculate on the future direction of interest rates. As of December 31, 2015, our exposure to changing market rates with respect to the Amended Term Loan Facility was as follows:

Dollars in millions	December 31, 2015
Variable rate debt	$ 221.6
Interest rate	5.00%

As of December 31, 2015 total outstanding balance on the Amended Term Loan Facility was approximately $221.6 million. In the event of an increase in the interest rate of 100 basis points, assuming a principal of $221.6 million, we would incur an increase in interest expense of approximately $2.2 million per year. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of debt, no interest rate swap or hedge in place, and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for one year.

Foreign Currency Exchange Risk

Although we currently conduct business in various countries outside the United States, we are not subject to any material currency risk because our cash flows are collected primarily in U.S. Dollars. Reported earnings and assets may be reduced in periods in which the U.S. dollar increases in value relative to those currencies.

Our objective in managing exposure to foreign currency fluctuations is to reduce volatility of earnings and cash flow. Accordingly, we may enter into foreign currency derivative instruments that change in value as foreign exchange rates change, such as foreign currency forward contracts or foreign currency options. Any gains and losses on the fair value of derivative contracts would be largely offset by gains and losses on the underlying assets being hedged. We held no foreign currency derivative financial instruments at December 31, 2015.

Item 8. Financial Statements and Supplementary Data.

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

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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, 2015. Our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2015, 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.

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, 2015 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 the 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," 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
2.1	Merger Agreement, dated as of January 22, 2013, by and among Azteca Acquisition Corporation, the Company, InterMedia Español Holdings, LLC, Cine Latino, Inc., Hemisphere Merger Sub I, LLC, Hemisphere Merger Sub II, Inc. and Hemisphere Merger Sub III, Inc. (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-4 filed with the Commission on January 25, 2013 (File No. 333-186210)).
2.2	Asset Purchase Agreement, dated as of January 22, 2014, by and among Hemisphere Media Holdings, LLC, Media World, LLC and the other parties named therein. (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on January 23, 2014 (File No. 001-35886)).
3.1	Amended and Restated Certificate of Incorporation of Hemisphere Media Group, Inc. (incorporated herein by reference to Exhibit 3.3 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)).
3.2	Amended and Restated Bylaws of Hemisphere Media Group, Inc. (incorporated herein by reference to Exhibit 3.4 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)).
4.1	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	Specimen Warrant Certificate (incorporated herein by reference to Exhibit 3.3 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
4.4	Equity Restructuring and Warrant Purchase Agreement, dated as of January 22, 2013, by and among Azteca Acquisition Corporation, the Company, Azteca Acquisition Holdings, LLC, Brener International Group, LLC, InterMedia Partners VII, L.P., InterMedia Cine Latino, LLC, Cinema Aeropuerto, S.A. de C.V. and the other parties identified therein (incorporated herein by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4 filed with the Commission on January 25, 2013 (File No. 333-186210)).
4.5	Lock-Up Agreement, dated as of January 22, 2013, by and among InterMedia Español Holdings, LLC, Cine Latino, Inc. and the parties identified as "IM Investor", "Cine Investors" and "Azteca Investors" therein (incorporated herein by reference to Exhibit 4.5 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)).
4.6	Warrant Agreement, dated June 29, 2011, by and between Azteca Acquisition Corporation and Continental Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 4.1 to Azteca Acquisition Corporations' Current Report on Form 8-K filed with the Commission on July 6, 2011 (File No. 000-54443).
4.7	Assignment, Assumption and Amendment of Warrant Agreement, dated as of April 4, 2013, by and among Azteca Acquisition Corporation, the Company and Continental Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 4.6 to the Company's Registration Statement on Form 8-A filed with the Commission on April 4, 2013 (File No. 000-54925)).
4.8	Hemisphere Media Group, Inc. 2013 Equity Incentive Plan (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Commission on April 10, 2013 (File No. 333-187846)).
9.1	Support Agreement, dated January 22, 2013, by and among Azteca Acquisition Corporation, Hemisphere Media Group, Inc., certain of the initial stockholders of Azteca Acquisition Corporation, and the other parties identified therein (incorporated herein by reference to Exhibit 10.1 to Azteca Acquisition Corporation's Current Report on Form 8-K filed with the Commission on January 23, 2013).
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)).
10.3	Joinder and Waiver to Registration Rights Agreement, by and among the Company and the parties identified as Transferees and Investors therein, dated April 2, 2015 (incorporated herein by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-3 filed with the Commission on April 2, 2015 (File No. 333-203223)).

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Exhibit No.	Description of Exhibits
10.4	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)).
10.5	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 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)).
10.6	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	Form of Nonqualified Stock Option Award Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 14, 2013 (File No. 001-35886)).
10.8	Form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 14, 2013 (File No. 001-35886)).
10.9	Employment Agreement, dated April 9, 2013, by and between the Company and Mr. 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 April 15, 2013 (File No. 000-54925)).
10.10	Employment Agreement, dated April 9, 2013, by and between the Company and Mr. Craig D. Fischer (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on April 15, 2013 (File No. 000-54925)).
10.11	Consulting Agreement, dated June 20, 2013, by and between the Company and James M. McNamara (incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 14, 2013 (File No. 001-35886)).

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Exhibit No.	Description of Exhibits
10.12	Employment Agreement, dated May 6, 2013, by and between the Company and Alex J. Tolston (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the Commission on March 28, 2014 (File No. 001-35886)).
10.13	Employment Agreement, dated September 30, 2013, by and among the Company, Televicentro of Puerto Rico, LLC and Jose E. Ramos (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the Commission on March 28, 2014 (File No. 001-35886)).
10.14	Employment Agreement, dated May 5, 2014, by and between the Company and Leonardo Guevara (incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed with the Commission on March 31, 2015 (File No. 001-35886)).
10.15	Employment Agreement, dated June 16, 2014, by and between the Company and Karen A. Maloney (incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed with the Commission on March 31, 2015 (File No. 001-35886)).
10.16*	Employment Agreement, dated August 7, 2015, by and between the Company and Vicky Bathija.
10.17*	Offer Letter, dated December 1, 2015, by and between the Company and Lucia Ballas-Traynor.
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.
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.

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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 14, 2016 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 Peter M. Kern	Chairman of the Board and Director	March 14, 2016
/s/ ALAN J. SOKOL Alan J. Sokol	Chief Executive Officer and President (Principal Executive Officer) and Director	March 14, 2016
/s/ CRAIG D. FISCHER Craig D. Fischer	Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2016
/s/ LEO HINDERY, JR. Leo Hindery, Jr.	Director	March 14, 2016
/s/ JAMES M. MCNAMARA James M. McNamara	Director	March 14, 2016
/s/ ERNESTO VARGAS GUAJARDO Ernesto Vargas Guajardo	Director	March 14, 2016
/s/ GABRIEL BRENER Gabriel Brener	Director	March 14, 2016

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Signature	Title	Date
/s/ ERIC C. NEUMAN Eric C. Neuman	Director	March 14, 2016
/s/ VINCENT L. SADUSKY Vincent L. Sadusky	Director	March 14, 2016
/s/ JOHN ENGELMAN John Engelman	Director	March 14, 2016

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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, 2015. 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, 2015.

The effectiveness of the 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 14, 2016

BY:

/s/ ALAN J. SOKOL	/s/ CRAIG D. FISCHER
Alan J. Sokol President and Chief Executive Officer	Craig D. Fischer Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Hemisphere Media Group, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. We also have audited Hemisphere Media Group Inc.'s and subsidiaries internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Hemisphere Media Group Inc.'s and subsidiaries management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 *(a)* pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; *(b)* provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and *(c)* provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hemisphere Media Group Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Hemisphere Media Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial

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reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

/s/ RSM US LLP

West Palm Beach, Florida
March 14, 2016

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Hemisphere Media Group, Inc.

Consolidated Balance Sheets

As of December 31, 2015 and 2014

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

	2015	2014
Assets		
Current Assets		
Cash	$ 179,532	$ 142,010
Accounts receivable, net of allowance for doubtful accounts of $1,512 and $1,073, respectively	25,519	24,763
Due from related parties	1,722	1,334
Programming rights	5,552	5,441
Deferred taxes		4,222
Prepaid taxes and other current assets	4,541	8,071
Total current assets	216,866	185,841
Programming rights	7,457	6,652
Property and equipment, net	25,397	23,867
Deferred financing costs, net	2,254	2,758
Broadcast license	41,356	41,356
Goodwill	164,887	164,887
Other intangibles, net	78,185	91,611
Deferred taxes	13,280	
Other assets	1,468	1,425
Total Assets	$ 551,150	$ 518,397
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	2,463	2,176
Due to related parties	1,182	787
Accrued agency commissions	8,168	6,642
Accrued compensation and benefits	3,995	3,391
Accrued marketing	6,569	5,581
Taxes payable	902	927
Other accrued expenses	3,867	2,049
Programming rights payable	4,426	4,228
Current portion of long-term debt	8,278	2,250
Total current liabilities	39,850	28,031
Programming rights payable	365	111
Long-term debt, net of current portion	211,645	219,541
Deferred taxes	17,928	11,670
Defined benefit pension obligation	2,721	2,631
Total Liabilities	272,509	261,984
Stockholders' Equity		

Preferred stock, $0.0001 par value; 50,000,000 shares authorized; 0 shares issued and outstanding at December 31, 2015 and December 31, 2014		
Class A common stock, $.0001 par value; 100,000,000 shares authorized; 15,342,440 and 14,518,734 shares issued and outstanding at December 31, 2015 and 2014, respectively	1	1
Class B common stock, $.0001 par value; 33,000,000 shares authorized; 30,027,148 issued and outstanding at December 31, 2015 and 2014	3	3
Additional paid-in capital	256,551	246,858
Treasury stock, at cost 236,171 at December 31, 2015 and 146,703 at December 31, 2014	(3,144)	(1,961)
Retained earnings	25,837	12,098
Accumulated comprehensive loss	(607)	(586)
Total Stockholders' Equity	278,641	256,413
Total Liabilities and Stockholders' Equity	$ 551,150	$ 518,397

See accompanying notes to consolidated financial statements.

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Hemisphere Media Group, Inc.

Consolidated Statements of Operations

Years Ended December 31, 2015, 2014 and 2013

(amounts in thousands, except per share amounts)

	2015	2014	2013
Net revenues	$ 129,790	$ 111,989	$ 86,005
Operating Expenses:			
Cost of revenues	41,189	36,450	33,950
Selling, general and administrative	36,037	31,608	29,678
Depreciation and amortization	17,218	16,552	8,762
Other expenses	446	1,282	5,694
Loss on disposition of assets	33	70	199
Total operating expenses	94,923	85,962	78,283
Operating income	34,867	26,027	7,722
Other Expenses:			
Interest expense, net	(12,086)	(11,925)	(7,240)
Loss on extinguishment of debt		(1,116)	(1,649)
	(12,086)	(13,041)	(8,889)
Income (loss) before income taxes	22,781	12,986	(1,167)
Income tax expense	(9,042)	(2,429)	(3,130)
Net income (loss)	$ 13,739	$ 10,557	$ (4,297)
Earnings (loss) per share:			
Basic	$ 0.32	$ 0.25	$ (0.14)
Diluted	$ 0.31	$ 0.25	$ (0.14)
Weighted average shares outstanding:			
Basic	42,840	42,321	31,143
Diluted	43,802	42,622	31,143

See accompanying notes to consolidated financial statements.

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Hemisphere Media Group, Inc.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2015, 2014 and 2013

(amounts in thousands)

	2015	2014	2013
Net income (loss)	$ 13,739	$ 10,557	$ (4,297)
Other comprehensive income (loss):			
Net unrealized gain on interest rate swap agreement			38
Adjustment to defined benefit plan, net of tax	(21)	50	130
Other, net of tax			(17)
Comprehensive income (loss)	$ 13,718	$ 10,607	$ (4,146)

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, 2015, 2014 and 2013

(amounts in thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid In Capital	Class A Treasury Stock	Retained Earnings	Accumulated Comprehensive (Loss) Income	Total
	Shares	Par Value	Shares	Par Value					
Balance at December 31, 2012		$		$	$ 34,608	$	$ 5,838	$ (787)	$ 39,659
Consummation of the Transaction (April 4, 2013)	10,991	1	33,000	3	198,992				198,996
Net loss							(4,297)		(4,297)
Issuance of restricted stock	250				2,102				2,102
Excess tax benefits related to the issuance of restricted stock					25				25
Stock-based compensation					5,090				5,090
Repurchases of Class A Common Stock						(938)			(938)
Other comprehensive income, net of tax								151	151
Balance at December 31, 2013	11,241	1	33,000	3	240,817	(938)	1,541	(636)	240,788
Net income							10,557		10,557
Issuance of restricted stock	305				2,908				2,908
Excess tax benefits related to the issuance of restricted stock					120				120
Stock-based compensation					3,012				3,012
Repurchases of Class A Common Stock						(1,023)			(1,023)
Exercise of warrants					1				1
Conversion of Class B Common Stock to Class A Common Stock	2,973		(2,973)						
Other comprehensive loss, net of tax								50	50
Balance at December 31, 2014	14,519	1	30,027	3	246,858	(1,961)	12,098	(586)	256,413
Net income							13,739		13,739
Issuance of restricted stock	324				2,522				2,522
Excess tax benefits related to the issuance of restricted stock					272				272
Stock-based compensation					3,053				3,053
Repurchase of Class A Common Stock						(1,183)			(1,183)
Issuance of Class A Common Stock	479				5,407				5,407
Repurchase of warrants					(1,778)				(1,778)
Exercise of warrants	5				60				60
Exercise of stock options	15				157				157
Other comprehensive loss, net of tax								(21)	(21)
Balance at December 31, 2015	15,342	$ 1	30,027	$ 3	$ 256,551	$ (3,144)	$ 25,837	$ (607)	$ 278,641

See accompanying notes to consolidated financial statements.

Explanation of Responses:

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Hemisphere Media Group, Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2015, 2014 and 2013

(amounts in thousands)

	2015	2014	2013
Cash Flows From Operating Activities:			
Net income (loss)	$ 13,739	$ 10,557	$ (4,297)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	17,218	16,552	8,762
Program amortization	11,703	10,370	9,322
Amortization of deferred financing costs	504	507	604
Amortization of original issue discount	382	310	106
Stock-based compensation	5,575	5,920	7,192
Provision for bad debts	920	462	165
Loss on disposition of assets	33	70	199
Loss on early extinguishment of debt		1,116	1,649
Deferred tax expense	(2,838)	(2,264)	1,029
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(1,676)	(7,430)	(1,030)
Programming rights	(12,619)	(9,715)	(10,543)
Due from related parties	(388)	(1,398)	
Prepaid expenses and other current assets	3,487	(4,397)	(2,966)
Increase (decrease) in:			
Accounts payable	287	610	563
Due to related parties	395	49	(1,005)
Accrued expenses	4,936	3,400	(3,943)
Programming rights payable	452	(1,418)	789
Income tax payable	(25)	(120)	(49)
Other liabilities	107	93	446
Net cash provided by operating activities	42,192	23,274	6,993
Cash Flows From Investing Activities:			
Acquisition of cable networks		(101,891)	
Proceeds from sale of assets	3	10	16
Capital expenditures	(5,358)	(2,971)	(1,802)
Net cash used in investing activities	(5,355)	(104,852)	(1,786)
Cash Flows From Financing Activities:			
Transaction proceeds, net			82,437
Proceeds from long-term debt		70,565	173,250
Repayments of long-term debt	(2,250)	(21,941)	(89,984)
Financing fees		(756)	(3,459)
Proceeds from issuance of stock	5,407		
Repurchase of warrants	(1,778)		
Exercise of warrants	60	1	
Purchase of treasury stock	(1,183)	(1,023)	(938)
Exercise of stock options	157		
Excess tax benefits	272	120	25
Net cash provided by financing activities	685	46,966	161,331
Net increase (decrease) in cash	37,522	(34,612)	166,538

Cash:			
Beginning	142,010	176,622	10,084
Ending	$ 179,532	$ 142,010	$ 176,622
Supplemental Disclosures of Cash Flow Information:			
Cash payments for:			
Interest	$ 11,305	$ 11,171	$ 5,419
Income taxes	$ 5,812	$ 4,438	$ 4,034

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"), and HMTV Cable, Inc., the parent company of the entities for the acquired networks consisting of Pasiones, TV Dominicana, and Centroamerica TV (see below). Hemisphere was formed on January 16, 2013 for purposes of effecting the transaction, (see Note 2), 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.

On April 1, 2014, we acquired the assets of three Spanish-language cable television networks from Media World, LLC, a Florida limited liability company ("Seller"), for $101.9 million in cash. The three acquired cable networks include Pasiones, Centroamerica TV and TV Dominicana. For more information, see Note 2.

Reclassification: Certain prior year amounts on the presented consolidated balance sheet have been reclassified to conform with current year presentation with no effect on net income, total assets, total liabilities or stockholders' equity.

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.

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 earnings (loss) per common share: Basic earnings (loss) per share ("EPS") are computed by dividing income (loss) attributable to common stockholders by the number of weighted-average outstanding shares of common stock. Diluted EPS 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.

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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 following table sets forth the computation of the common shares outstanding used in determining basic and diluted EPS (*amounts in thousands, except per share amounts*):

	Years Ended December 31		
	2015	**2014**	**2013**
Numerator for earnings (loss) per common share calculation:			
Net income (loss)	$ 13,739	$ 10,557	$ (4,297)
Denominator for earnings (loss) per common share calculation:			
Weighted-average common shares, basic	42,840	42,321	31,143
Effect of dilutive securities			
Stock options, restricted stock and warrants	962	301	
Weighted-average common shares, diluted	43,802	42,622	31,143
EPS			
Basic	$ 0.32	$ 0.25	$ (0.14)
Diluted	$ 0.31	$ 0.25	$ (0.14)

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 (loss) per common share calculation. Potentially dilutive securities representing 1.0 million, 1.1 million and 0.6 million shares of common stock for the years ended December 31, 2015, 2014 and 2013, respectively, were excluded from the computation of diluted income (loss) per common share for this period because their effect would have been anti-dilutive. The net income (loss) per share 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.

In computing earnings 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: Revenue related to the sale of advertising and contracted time is recognized at the time of broadcast. Retransmission consent fees and subscriber fees received from cable, telecommunications and satellite operators are recognized in the period in which the services are performed, generally pursuant to multi-year carriage agreements based on the number of subscribers.

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.

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

	2015	2014	2013
Barter revenue	$ 811	$ 1,311	$ 1,448
Barter expense	(791)	(1,075)	(1,360)
	$ 20	$ 236	$ 88

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.

Stock-based compensation: We have given equity incentives to certain employees. We account for such equity incentives in accordance with Accounting Standards Codification ("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 by using either the Monte Carlo simulation model or 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 $3.5 million, $2.4 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013, 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, 2015, 2014 and 2013 consisted of the following *(amounts in thousands):*

Year	Description	Beginning of Year	Additions	Write-offs	Recoveries	End of Year
2015	Allowance for doubtful accounts	$ 1,073	$ 920	$ 482	$ 1	$ 1,512
2014	Allowance for doubtful accounts	651	462	45	5	1,073
2013	Allowance for doubtful accounts	180	519	51	3	651

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

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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. No such write-down was deemed necessary during the years ended December 31, 2015, 2014 and 2013. 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, which was $11.7 million, $10.4 million and $9.3 million for the years ended December 31, 2015, 2014 and 2013, respectively, is recorded as part of cost of revenues in the accompanying consolidated statements of operations. Accumulated amortization of the programming rights was $19.7 million and $16.2 million at December 31, 2015 and 2014, 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.

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, trademark and tradenames. Other intangible assets include customer relationships, non-compete agreement and affiliate agreements 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 measure 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.

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.

Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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 annually for impairment or 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. Amortization is calculated on the effective-interest method over the term of the applicable loan. Amortization of deferred financing costs was $0.5 million, $0.5 million and $0.6 million, which is included in interest expense, net in the accompanying consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013, respectively. Accumulated amortization of deferred financing costs was $1.0 million and $0.5 million at December 31, 2015 and 2014, respectively.

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.

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.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

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

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.

Generally accepted accounting principles establish 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 years ended December 31, 2015, 2014 and 2013 there were no adjustments to fair value.

The Company's variable-rate debt is 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, 2015 and 2014.

Major customers and suppliers: One of our Distributors accounted for more than 10% of our total net revenues for the year ended December 31, 2015. 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.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board updated the accounting guidance related to revenue recognition. The updated accounting guidance provides a single, contract-based revenue recognition model to help improve financial reporting by providing clearer guidance on when an entity should recognize revenue, and by reducing the number of standards to which an entity has to refer. In July 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The updated accounting guidance provides companies with alternative methods of adoption. We are currently in the process of determining the impact that the updated accounting guidance will have on our consolidated financial statements and our method of adoption.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

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

FASB has issued Accounting Standards Update ("ASU") *2015-15 Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. This ASU adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issue Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. In April 2015, the FASB issued update, *ASU 2015-03 Interest Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. *ASU 2015-03* does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within *ASU 2015-03* for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We will adopt the guidance in the first quarter of 2016, with the impact to our consolidated statement of position to be a reduction in assets where deferred costs are currently disclosed, and a reduction to long-term debt where these costs will be recorded after the transition.

On November 20, 2015, FASB issued *ASU 2015-17- Income taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The ASU simplifies the presentation of deferred income taxes, requiring that deferred income tax liabilities and assets be classified as non-current in the statement of financial position. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively or retrospectively to all periods presented. In the period of the change, the entity should disclose the nature of and reason for the change in accounting principle and the quantitative information about the effects of the accounting change on prior periods. We have early adopted this guidance in the fourth quarter 2015. Prior periods have not been restated. See Note. 6 Income Taxes.

In January 2016, the FASB issued *ASU 2016-01 Financial Instruments Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other provisions, the new guidance requires the fair value measurement of investments in certain equity securities. For investments without readily determinable fair values, entities have the option to either measure these investments at fair value or at cost adjusted for changes in observable prices minus impairment. All changes in measurement will be recognized in net income. The guidance will be effective for the first interim period of our 2019 fiscal year. Early adoption is not permitted, except for certain provisions relating to financial liabilities. We are currently evaluating the impact of the new standard.

Use of estimates: In preparing these consolidated financial statements, management had to make estimates and assumptions that affected the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the balance sheets 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.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 2. Business Combination

On April 1, 2014, we closed on the acquisition of the net assets of the Spanish-language television network business of the Seller (the "Cable Networks Acquisition"), which is comprised of Pasiones, Centroamerica TV and TV Dominicana, which we refer to as the Acquired Cable Networks. The Acquired Cable Networks are highly complementary to our existing television networks, and build on our commitment to provide unique programming focused on the U.S. Hispanic market. The purchase price for the Cable Networks Acquisition and certain agreements entered into with the Seller contemporaneously with the business combination was $101.9 million, and was funded with cash on hand. The Cable Networks Acquisition was accounted for by applying the acquisition method, which requires the determination of the fair value of the consideration transferred, the fair value of the assets and liabilities of the acquiree, and the measurement of goodwill pursuant to ASC Topic 805-10, *"Business Combinations-Overall"*. Costs incurred in connection with the Cable Networks Acquisition are included in other expenses and totaled $1.2 million, of which $0.9 million was recorded in the fourth quarter of 2013, with the balance recorded in 2014.

The following table summarizes the estimated fair values of the assets acquired, liabilities assumed and resulting goodwill in the Cable Networks Acquisition (*amounts in thousands*):

Other assets	$	177
Intangible asset affiliate agreements		46,014
Intangible asset brands		15,986
Intangible asset advertiser relationships		3,310
Intangible assets other		648
Other liabilities		(2,123)
Fair value of identifiable net assets acquired		64,012
Goodwill		34,093
Total	**$**	**98,105**

In addition to the above identifiable assets, the estimated fair values of a non-compete agreement entered into with the Seller and a consulting agreement with certain Seller executives are $3.3 million and $0.5 million, respectively, which are accounted for separately from the Cable Networks Acquisition. We finalized the accounting for the Cable Networks Acquisition in the second quarter of 2014.

The estimated fair value of the affiliate agreements of $46.0 million was determined using a discounted cash flow method utilizing an 8.5% discount rate. This intangible asset will be amortized on a straight-line basis over eight years. The estimated fair value of the television network brands of $16.0 million was determined using a discounted cash flow method based on a royalty rate of 5% and utilizing an 8.5% discount rate. This intangible asset was determined to be indefinite-lived given the strong association of the brand with the content appearing on the networks and their respective target audiences. The estimated fair values of the advertiser relationships and non-compete agreement of $3.3 million each were determined using a discounted cash flow method utilizing an 8.5% discount rate and will be amortized on a straight-line basis over six years. All other intangibles of $1.1 million will be amortized over a period of one year or less.

Goodwill of $34.1 million is the excess of the net consideration transferred over the fair value of the identifiable net assets acquired, and primarily represents the benefits we expect to realize from the

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 2. Business Combination (Continued)

Cable Networks Acquisition and the synergistic opportunities with our existing networks. The goodwill associated with the transaction is deductible for tax purposes.

Note 3. Related Party Transactions

The Company has various agreements MVS Multivision Digital S. de R.L. de C.V. and its affiliates (collectively "MVS"), a Mexican media and television conglomerate, which have directors and stockholders in common with the Company as follows:

An agreement through August 1, 2017 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 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. Total expenses incurred were $2.3 million, $2.1 million and $1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, and are included in cost of revenues.

A ten-year master license agreement through July 2017, which grants MVS the non-exclusive right (except with respect to pre-existing distribution arrangements between MVS and third party distributors that are effective at the time of the consummation of the Transaction) to duplicate, distribute and exhibit Cinelatino's service via cable, satellite or by any other means in Latin America and in Mexico to the extent that Mexico distribution is not owned by MVS. Pursuant to the agreement, Cinelatino receives revenue net of MVS's distribution fees, which is presently equal to 13.5% of all license fees collected from distributors in Latin America and Mexico. Total revenues recognized were $5.1 million, $4.2 million and $2.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. MVS has terminated the agreement effective February 29, 2016.

An affiliation agreement through August 1, 2017 for the distribution and exhibition of Cinelatino's programming service through Dish Mexico (dba Commercializadora de Frecuencias Satelitales, S de R.L. de C.V.), an MVS affiliate that transmits television programming services throughout Mexico. Total revenues recognized were $2.0 million, $1.9 million and $1.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

An affiliation agreement, effective July 2015 through January 2018 for the distribution and exhibition of Pasiones' Latin American programming service through Dish Mexico (dba 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 $0 for the year ended December 31, 2015.

In November 2015, we licensed programming from MVS. Expenses incurred under this agreement are included in cost of revenues and amounted to $0.0 million for the year ended December 31, 2015. At December 31, 2015 $0.0 million is included in programming rights related to this agreement.

In November 2013, we licensed six movies from MVS. Expenses incurred under this agreement are included in cost of revenues and amounted to $0.0 million for the years ended December 31,

Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3. Related Party Transactions (Continued)

2015, 2014, and 2013. At December 31, 2015 and 2014, $0.1 million is included in programming rights related to this agreement.

Amounts due from MVS pursuant to the agreements noted above, amounted to $1.7 million and $1.3 million at December 31, 2015 and 2014, respectively, and are remitted monthly. Amounts due to MVS pursuant to the agreements noted above amounted to $1.1 million and $0.7 million at December 31, 2015 and 2014, respectively, and are remitted monthly.

We entered into a three-year consulting agreement effective April 9, 2013 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 $0.2 million for each of the years ended December 31, 2015, 2014 and 2013. Amounts due this related party totaled $0 and $0.1 million at December 31, 2015 and 2014, respectively.

We have entered into programming agreements with Panamax Films, LLC ("Panamax"), an entity owned by James M. McNamara for the licensing of three specific 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 each of the years ended December 31, 2015, 2014 and 2013. At December 31, 2015 and 2014, $0.1 million and $0.2 million, respectively, is included in other assets in the accompanying consolidated balance sheets as prepaid programming related to these agreements.

During 2013, we engaged Pantelion to assist in the licensing of a feature film in the United States. Pantelion is a joint venture made up of several organizations, including Panamax Films, LLC ("Panamax"), Lions Gate Films Inc. ("Lions Gate") and Grupo Televisa. Panamax is owned by James McNamara, who is also the Chairman of Pantelion. We agreed to pay to Pantelion, in connection with their services, up to 12.5% of all "licensing revenues". Total licensing revenues are included in net revenues in the accompanying consolidated statements of operations and amounted to $0.0 million for the years ended December 31, 2015, 2014 and 2013. Total expenses incurred are included in cost of revenues in the accompanying consolidated statements of operations and amounted to $0.0 million for each of the years ended December 31, 2015 and 2014, and $0.3 million for the year ended December 31, 2013. Amounts due Pantelion at December 31, 2015 and 2014 totaled $0. In October 2015, Pantelion purchased advertising time on one of our channels, which amounted to $0.0 million, net of commission.

Effective February 1, 2015, we entered into a licensing agreement to license the rights to fourteen (14) motion pictures from Lions Gate for a total license fee of $0.8 million. Some of the fourteen titles are owned by Pantelion, for which Lions Gate acts as Pantelion's exclusive licensing agent. Fees paid by Cinelatino to Lions Gate may be remunerated to Pantelion in accordance with their financial arrangements. Expenses incurred under this agreement are included in cost of revenues in the accompanying consolidated statements of operations, and amounted to $0.2 million for the year ended December 31, 2015. At December 31, 2015, $0.2 million is included in programming rights in the accompanying consolidated balance sheets related to this agreement.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 3. Related Party Transactions (Continued)

We entered into a services agreement with InterMedia Advisors, LLC ("IMA") which has officers, directors and stockholders in common with the Company for services including, without limitation, office space and operational support pursuant to a reimbursement agreement with IMA's affiliate, InterMedia Partners VII, L.P. Amounts due to this related party amounted to $0.0 million at December 31, 2015 and 2014. Amounts receivable from the related party and amounts due to the related party are included in selling, general and administrative expenses, netted to $0.0 million for each of the years ended December 31, 2015, 2014 and 2013.

Note 4. Property and Equipment

Property and equipment at December 31, 2015 and 2014 consists of the following *(amounts in thousands*):

	2015	2014
Land and improvements	$ 8,724	$ 8,724
Building	9,399	7,066
Equipment	24,312	23,270
Towers	5,484	5,433
	47,919	44,493
Less: accumulated depreciation	(26,103)	(22,969)
	21,816	21,524
Equipment installations in progress	3,581	2,343
	$ 25,397	**$ 23,867**

Depreciation expense was $3.7 million, $3.8 million and $3.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 5. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following at December 31, 2015 and 2014 (*amounts in thousands*):

	December 31,	
	2015	2014
Broadcast license	$ 41,356	$ 41,356
Goodwill	164,887	164,887
Other intangibles	78,185	91,611
Total intangible assets	**$ 284,428**	**$ 297,854**

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 5. 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, 2015 and 2014 is as follows *(amounts in thousands*):

	Net Balance at December 31, 2014	Additions	Impairment	Net Balance at December 31, 2015
Broadcast license	$ 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**

	Net Balance at December 31, 2013	Additions	Impairment	Net Balance at December 31, 2014
Broadcast licenses	$ 41,356	$	$	$ 41,356
Goodwill	130,794	34,093		164,887
Brands		15,986		15,986
Other intangibles	700			700
Total indefinite-lived intangible	**$ 172,850**	**$ 50,079**	**$**	**$ 222,929**

A summary of the changes in the Company's other amortizable intangible assets for the years ended December 31, 2015 and 2014 is as follows (*amounts in thousands*):

	Net Balance at December 31, 2014	Additions	Amortization	Net Balance at December 31, 2015
Affiliate relationships	$ 69,064	$	$ (12,298)	$ 56,766
Advertiser relationships	2,896		(552)	2,344
Non-compete agreement	2,882		(549)	2,333
Other intangibles	83	65	(92)	56
Total Finite-lived intangibles	**$ 74,925**	**$ 65**	**$ (13,491)**	**$ 61,499**

	Net Balance at December 31, 2013	Additions	Amortization	Net Balance at December 31, 2014
Affiliate relationships	$ 33,910	$ 46,014	$ (10,860)	$ 69,064
Advertiser relationships		3,310	(414)	2,896
Non-compete agreement		3,294	(412)	2,882
Other intangibles		1,140	(1,057)	83

Total finite-lived intangibles	$	33,910	$	53,758	$	(12,743)	$	74,925

The aggregate amortization expense of the Company's amortizable intangible assets was $13.5 million, $12.7 million and $5.0 million for the years ended December 31, 2015, 2014 and 2013.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 5. Goodwill and Intangible Assets (Continued)

The weighted average remaining amortization period is 5.1 years at December 31, 2015. Future estimated amortization expense is as follows *(amounts in thousands):*

Year Ending December 31,	Amount
2016	$ 13,421
2017	13,248
2018	13,182
2019	8,432
2020 and thereafter	13,216
	$ 61,499

Note 6. Income Taxes

For the years ended December 31, 2015, 2014 and 2013, Income before provision for income taxes, includes the following components (*amounts in thousands*):

	2015	2014	2013
Domestic income	$ 9,663	$ 6,764	$ (1,301)
Foreign income	13,118	6,222	134
	$ 22,781	$ 12,986	$ (1,167)

For the years ended December 31, 2015, 2014 and 2013, income tax expense is composed of the following *(amounts in thousands*):

	2015	2014	2013
Current income tax expense	$ 11,880	$ 4,693	$ 2,101
Deferred income tax (benefit) expense	(2,838)	(2,264)	1,029
	$ 9,042	$ 2,429	$ 3,130

Current tax expense for the years ended December 31, 2015, 2014 and 2013 includes $1.5 million, $1.1 million and $0.6 million of foreign withholding tax, respectively.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6. Income Taxes (Continued)

For the years ended December 31, 2015, 2014 and 2013 the Company's income tax expense and effective tax rates were as follows:

	2015	2014	2013
Pre-tax book income US Only	35.0%	35.0%	34.0%
Pre-tax book income PR Only	20.2%	16.9%	3.9%
Permanent items	4.0%	3.2%	164.6%
Return to provision true-ups Current/Deferred	1.4%	3.8%	27.9%
Foreign rate differential	2.2%	3.4%	7.4%
Foreign tax credits	24.5%	31.1%	90.2%
Current/Deferred rate difference	0.0%	0.0%	0.9%
Change in valuation allowance	0.0%	19.6%	212.6%
Foreign withholding taxes	6.7%	8.9%	0.0%
Deferred foreign tax credit offset	2.2%	4.0%	20.4%
State taxes and state rate change	0.3%	1.9%	146.9%
Federal rate change	0.0%	0.0%	152.8%
	39.7%	18.8%	261.8%

For the year ended December 31, 2015, the items that significantly affect the differences between the tax provision calculated at the statutory federal income tax rate and the actual tax benefit recorded relate to increases in taxes in Puerto Rico and foreign withholding taxes that will generate offsetting U.S. foreign tax credits.

For the year ended December 31, 2014, the items that significantly affect the differences between the tax provision calculated at the statutory federal income tax rate and the actual tax benefit recorded relate to increases in taxes in Puerto Rico that will generate offsetting U.S. foreign tax credits and the reduction of the valuation allowance.

For the year ended December 31, 2013, the items that significantly affect the differences between the tax provision calculated at the statutory federal income tax rate and the actual tax benefit recorded relate to permanent differences related to non-deductible expenses in conjunction with the Transaction, increases in taxes in Puerto Rico that will not generate offsetting U.S. foreign tax credits and the change in the valuation allowance.

The Company may be audited by federal, state and local tax authorities, and from time to time these audits could result in proposed assessments. The Company has open tax years from 2012 forward for federal and state tax purposes. During 2015, the Company received a notice that the Hemisphere Media Group, Inc., 2013 tax return was selected for examination by the IRS. As of the date of filing, the examination has not commenced.

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 6. Income Taxes (Continued)

operating loss and tax credits carried forward. Net deferred tax liabilities consist of the following components as of December 31, 2015 and 2014 *(amounts in thousands)*:

	2015	2014
Deferred tax assets:		
Allowances for doubtful accounts	$ 1,976	$ 1,091
Deferred branch tax benefit	15,813	16,592
Deferred income	29	31
Fixed assets	39	
Accrued expenses	1,440	3,299
Foreign tax credit	5,572	2,592
Stock compensation	3,465	2,918
Pension	651	1,041
Intangibles	2,376	2,651
	31,361	30,215
Deferred tax liabilities:		
Prepaid expenses	(196)	(200)
Intangibles	(23,000)	(25,807)
Property and equipment	(3,098)	(4,032)
Amortization expense	(9,715)	(7,624)
Total deferred tax liabilities	(36,009)	(37,663)
	$ (4,648)	$ (7,448)

The deferred tax amounts mentioned above have been classified on the accompanying consolidated balance sheets at December 31, 2015 and 2014 as follows (*amounts in thousands*):

	2015	2014
Current assets	$	$ 4,222
Non-current assets	$ 13,280	$
Non-current liabilities	$ 17,928	$ 11,670

In the fourth quarter of 2015, we prospectively adopted *ASU-2015-17 Income taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. To provide greater clarity in the presentation and timing of utilization of both deferred tax assets and liabilities, we have elect to early

adopt this ASU by tax jurisdiction. If we had adopted this ASU retrospectively, current deferred tax assets would have been reclassified to $9.8 million of non-current deferred tax assets and $17.3 million of non-current deferred tax liabilities.

At December 31, 2015 and 2014, the Company has foreign tax credit carryforwards for U.S. federal purposes and foreign minimum credits totaling $5.6 million and $ 2.6 million, respectively, which expire during the years 2021 through 2025.

Upon audit, taxing authorities may prohibit the realization of all or part of an uncertain tax position. While the Company has no history of tax audits, the Company regularly assesses the outcome

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 6. Income Taxes (Continued)

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. As of December 31, 2015, the Company has uncertain tax position reserves of $0.3 million and recorded related interest expense of $0.0 million. During 2014, the Company identified an uncertain tax position and recorded a liability of $0.7 million with an offsetting deferred tax asset. The company accrued no interest related to this item.

Note 7. Long-Term Debt

Long-term debt as of December 31, 2015 and 2014 consists of the following (*amounts in thousands*):

	December 31, 2015	December 31, 2014
Senior Notes due July 2020	$ 219,923	$ 221,791
Less: Current portion	(8,278)	(2,250)
	$ 211,645	$ 219,541

On July 30, 2013 certain of our subsidiaries (the "Borrowers") entered into a credit agreement providing for a $175.0 million senior secured term loan B facility (the "Term Loan Facility") which matures on July 30, 2020. On July 31, 2014, certain of our subsidiaries amended the Term Loan Facility (the "Amended Term Loan Facility") which provides for an aggregate principal amount of $225.0 million and matures on July 30, 2020. Pricing on the Amended Term Loan Facility was set at LIBOR plus 400 basis points (decreased from a margin of 500 basis points) subject to a LIBOR floor of 1.00% (decreased from a LIBOR floor of 1.25%), resulting in an effective interest rate 5.00%, and 0.5% of original issue discount ("OID"). The Amended Term Loan Facility also provides an uncommitted accordion option (the "Incremental Facility") allowing for additional borrowings under the Amended Term Loan Facility up to an aggregate principal amount equal to (i) $40.0 million plus (ii) an additional amount of up to 4.0x first lien net leverage. The obligations under the Amended Term Loan Facility are guaranteed by HMTV, LLC, our direct wholly-owned subsidiary, and all of our existing and future subsidiaries (subject to certain exceptions in the case of immaterial subsidiaries). Additionally, the Amended Term Loan Facility provides for an uncommitted incremental revolving loan option in an aggregate principal amount of up to $20.0 million, which shall be secured on a *pari passu* basis by the collateral securing the Amended Term Loan Facility. The Amended Term Loan Facility is secured by a first-priority perfected security interest in substantially all of our assets.

The proceeds of the Amended Term Loan Facility, were used to pay fees and expenses associated with the Cable Networks Acquisition, and for general corporate purposes including potential future acquisitions. The OID of $1.7 million, net of accumulated amortization of $0.7 million at December 31, 2015, was recorded as a reduction to the principal amount of the Amended Term Loan Facility outstanding and will be amortized as a component of interest expense over the term of the Amended Term Loan Facility. We recorded $2.3 million of deferred financing costs associated with the Term Loan Facility, as amended, net of accumulated amortization of $1.0 million at December 31, 2015, which will be amortized utilizing the effective interest rate method over the remaining term of the Amended Term Loan Facility. In July 2014, we recorded a $1.1 million loss on early extinguishment of debt; $0.7 million related to deferred costs and $0.4 million related to OID. Additionally, we incurred $1.0 million of deferred financing costs related to the Amended Term Loan Facility in accordance with

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 7. Long-Term Debt (Continued)

ASC 470 Debt, which is included in Other Expenses on the accompanying Consolidated Statement of Operations.

The Amended Term Loan Facility principal payments are payable on quarterly due dates commencing September 30, 2014, with a final installment on July 30, 2020.

In addition, pursuant to the terms of the Amended Term Loan Facility, within 90 days after the end of each fiscal year (commencing with the fiscal year ending December 31, 2015), the Borrowers are required to make a prepayment of the loan principal in an amount equal to 50% 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, interest charges, 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.

The excess cash flow as defined in the Term Loan Facility will require a payment of approximately $8.3 million, which will be paid upon filing of this Form 10-K in March 2016. As permitted under the Term Loan Facility, the excess cash flow payment will be allocated at our election and in direct order of maturity, accordingly, we will not be required to make the scheduled quarterly loan amortization payments for several quarters. As a result, the excess cash flow payment will represents the current portion of long-term debt net of OID shown on the balance sheet as of December 31, 2015.

Following are maturities of long-term debt, at December 31, 2015 (*amounts in thousands*):[(a)]

Year Ending December 31,		
2016	$	8,278
2017		
2018		
2019		722
2020		212,625
	$	221,625

(a) Table does not consider any future excess cash payments.

Note 8. Stockholders' Equity

Capitalization

On April 4, 2013, the merger by and among Cinelatino, WAPA Holdings and Azteca providing for the acquisition of Cinelatino and the combination of WAPA Holdings and Azteca as indirect, wholly-owned subsidiaries of Hemisphere (the "Transaction") was consummated.

In connection with the Transaction (i) the holders of Cinelatino common stock and the holder of membership interests in WAPA Holdings (the "Cinelatino/WAPA Investors") surrendered their respective interests and received an aggregate of 33,000,000 shares of Hemisphere Class B common stock, par value $0.0001 ("Class B common stock")(of which 1.5 million Class B Common Stock is subject to forfeiture if the market price of shares of Hemisphere Class A common stock does not reach certain levels), a cash payment equal to an aggregate of $5.0 million, and purchased 2,333,334 warrants

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8. Stockholders' Equity (Continued)

from Azteca founders to purchase Hemisphere Class A common stock, par value $0.0001 (such warrants, "Warrants" and such stock, "Class A common stock"); (ii) each share of Azteca common stock was automatically converted into one share of Class A common stock; (iii) each Amended Azteca Warrant, as defined below, was automatically converted into an equal number of Warrants; and (iv) immediately prior to the consummation of the Transaction, Azteca Acquisition Holdings, LLC and certain existing shareholders of Azteca contributed 250,000 shares of Azteca common stock to Azteca for cancellation and agreed to subject an additional 250,000 shares of Class A common stock to certain forfeiture provisions (a total of 503,788 shares of Class A common stock is subject to forfeiture) if the market price of shares of Hemisphere Class A common stock does not reach certain levels. Following the consummation of the Transaction, there were 10,991,100 shares of Class A stock outstanding and 33,000,000 shares of Hemisphere Class B stock outstanding. Subsequent to the Transaction, an additional 250,000 shares of Class A restricted stock were issued. From time to time the Company has issued Class A common stock to certain members of management and board of directors as equity compensation, subject to time and performance vesting conditions, as discussed below.

In December 2014, a shareholder of Class B common stock transferred 3.0 million shares of Class B common stock to a third party. As a result, the Class B common stock was automatically converted to Class A common stock.

As of the filing date of this Form 10-K, the last sale price of the Company's Class A Common Stock has not equaled or exceeded $15.00 per share (as adjusted for stock splits, share dividends, reorganizations, recapitalizations and the like) for any 20 trading days within at least one 30-trading day period within 36 months following April 4, 2013. As a result, approximately 379,000 Class A Common shares have been forfeited.

In the event the last sale price of the Class A Common Stock does not equal or exceed $15.00 per share (as adjusted for stock splits, share dividends, reorganizations, recapitalizations and the like) for any 20 trading days within at least one 30-trading day period within 60 months following April 4, 2013, Class A Common shares totaling 0.1 million and Class B Common Shares totaling 1.5 million will be forfeited.

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.

Equity Incentive Plans

An aggregate of 4.0 million shares of our Class A common stock were authorized for issuance under the terms of the Hemisphere Media Group, Inc. 2013 Equity Incentive Plan (the "2013 Equity Incentive Plan). At December 31, 2015, 0.8 million shares remained available for issuance of stock options or other stock-based awards under our 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 and available for 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 administers the 2013 Equity Incentive Plan, and has the sole

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8. Stockholders' Equity (Continued)

and plenary authority to, among other things: (i) designate participants; (ii) determine the type, size, and terms and conditions of awards to be granted; (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 related to stock options and restricted stock was $5.6 million, $5.9 million and $7.2 million for the years ended December 31, 2015, 2014, and 2013, respectively. At December 31, 2015, there was $2.3 million of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.1 years. At December 31, 2015, there was $3.7 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	**2015**	**2014**	**2013**
Risk-free interest rate	1.76% - 2.12%	1.76% - 1.92%	0.93% - 2.03%
Dividend yield			
Volatility	25.8% - 29.5%	28.4% - 30.9%	34.4% - 36.7%
Weighted-average expected term (years)	6.3	6.0 - 6.3	6.0

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8. Stockholders' Equity (Continued)

The following table summarizes stock option activity for the years ended December 31, 2015, 2014 and 2013 *(shares and intrinsic values in thousands):*

	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
Outstanding at January 1, 2013				
Granted	1,730	$ 11.20	9.3	$ 1,157
Exercised				
Forfeited or expired				
Outstanding at December 31, 2013	1,730	$ 11.20	9.3	$ 2,208
Granted	140	$ 11.56	9.7	
Exercised				
Forfeited or expired				
Outstanding at December 31, 2014	1,870	$ 11.23	8.4	$ 4,721
Granted	215	$ 13.61	6.2	
Exercised	(15)	10.60		
Forfeited or expired	(27)	10.60		
Outstanding at December 31, 2015	2,043	$ 11.49	7.6	$ 6,740
Vested at December 31, 2015	1,065	$ 11.33	7.3	$ 3,696
Exerciseable at December 31, 2015	1,065	$ 11.33	7.3	$ 3,696

The weighted average grant date fair value of options granted for the years ended December 31, 2015, 2014 and 2013 was $4.13, $3.75 and $4.21. At December 31, 2015, 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.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 8. Stockholders' Equity (Continued)

The following table summarizes restricted share activity for the years ended December 31, 2015, 2014 and 2013 (*shares in thousands*):

	Number of shares	Weighted-average grant date fair value
Outstanding at January 1, 2013		
Granted	1,195	$ 9.81
Vested	(250)	$ 8.41
Forfeited		
Outstanding at December 31, 2013	945	$ 10.18
Granted	79	11.34
Vested	(305)	11.33
Forfeited		
Outstanding at December 31, 2014	719	$ 9.82
Granted	99	$ 12.42
Vested	(324)	10.65
Forfeited		
Outstanding at December 31, 2015	494	$ 9.79

At December 31, 2015, 0.2 million shares of restricted stock issued are unvested, event-based shares.

Warrants

In connection with the capitalization of the Company noted above, the Company has issued 14.7 million warrants, which qualify as equity instruments. Each warrant entitles the holder to purchase one-half of the number of shares of our Class A common stock at a price of $6.00 per half share. At December 31, 2015, 13.3 million warrants were issued and outstanding, which are exercisable into 6.7 million shares of our Class A common stock. Warrants are only exercisable for a whole number of shares of common stock (i.e. only an even number of warrants may be exercised at any given time by a registered holder). As a result, a holder must exercise at least two warrants, at an effective exercise price of $12.00 per warrant. At the option of the Company, 8.7 million warrants may be called for redemption, provided that the last sale price of our Class A common stock reported has been at least $18.00 per share on each of twenty trading days within the thirty-day period ending on the third business day prior to the date on which notice of redemption is given. The warrants expire on April 4, 2018. In December 2015, we repurchased 1.3 million warrants from a single holder in a privately negotiated transaction for a total cost of $1.8 million.

During the year ended December 31, 2015, we issued 5,000 shares of our Class A common stock upon the exercise of 10,000 warrants for total exercise proceeds of $0.1 million.

Note 9. 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.

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 10. Commitments

The Company has entered into certain rental property contracts with third parties, which are accounted for as operating leases. Rental expense was $0.6 million, $0.3 million and $0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively

The Company has certain commitments including various operating leases.

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

Year Ending December 31,	Operating Leases	Other Commitments	Total
2016	$ 296	$ 7,093	$ 7,389
2017	388	3,413	3,801
2018	383	2,561	2,944
2019	335	1,260	1,595
2020 and thereafter	1,150	631	1,781
Total	$ 2,552	$ 14,958	$ 17,510

Note 11. 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 164 participants in the Retirement Plan.

Following is the plan's projected benefit obligation at December 31, 2015 and 2014. *(amounts in thousands*):

	2015	2014
Projected benefit obligation:		
Balance, beginning of the year	$ 2,682	$ 2,114
Service cost	112	82
Interest cost	102	105
Actuarial loss	53	457
Benefits paid to participants	(84)	(76)
Balance, end of year	$ 2,865	$ 2,682

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 11. Retirement Plans (Continued)

At December 31, 2015, 2014 and 2013, the funded status of the plan was as follows (*amounts in thousands*):

	2015	2014	2013
Excess of benefit obligation over the value of plan assets	$ (2,865)	$ (2,682)	$ (2,114)
Unrecognized net actuarial loss	905	904	473
Unrecognized prior service cost	69	86	103
Accrued benefit cost	$ (1,891)	$ (1,692)	$ (1,538)

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

At December 31, 2015 and 2014, the amounts recognized in the consolidated balance sheets were classified as follows (*amounts in thousands):*

	2015	2014
Accrued benefit cost	$ (2,865)	$ (2,682)
Accumulated other comprehensive loss	974	990
Net amount recognized	$ (1,891)	$ (1,692)

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

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
2016	$ 146
2017	185
2018	222
2019	127
2020	153
2021 through 2025	958
	$ 1,791

At December 31, 2015 and 2014, the following weighted-average rates were used:

	2015	2014
Discount rate on the benefit obligation	3.90%	3.80%
Rate of employee compensation increase	4.00%	4.00%

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 11. Retirement Plans (Continued)

Pension expense for the years ended December 31, 2015, 2014 and 2013, consists of the following (*amounts in thousands*):

	2015	2014	2013
Service cost	$ 112	$ 82	$ 83
Interest cost	102	105	84
Expected return on plan assets			
Recognized actuarial loss (gain)			
Amortization of prior service cost	17	17	19
Net loss amortization	51	27	36
	$ 282	$ 231	$ 222

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 two CBAs, one of which was scheduled to expire on July 23, 2015 and the other of which expires on June 27, 2016. Pursuant to its terms, the CBA which was scheduled to expire on July 23, 2015 automatically renewed for a period of eighteen (18) months upon such expiration date and remains in effect through January 23, 2017 while the parties negotiate its renewal. 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.

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 other participating employer.

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

Under current law regarding multiemployer defined benefit plans, a plan's termination, WAPA's voluntary withdrawal, or the mass withdrawal of all contributing employers from any underfunded multiemployer defined benefit plan would require us to make payments to the plan for our proportionate share of the multiemployer plan's unfunded vested liabilities.

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 status, the "Red Zone", as defined by the PPA, and that 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. WAPA elected the "Preferred Schedule" and executed a Memorandum of Agreement, effective May 27, 2010 (the "MOA") and

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 11. Retirement Plans (Continued)

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. 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 a updated plan with a new benefit design would be in the best interest of the Plan's participants. As a result, the Plan's Board of Trustee's adopted changes to the Rehabilitation Plan effective January 1, 2016.

Under the Rehabilitation Plan, as revised in 2015, WAPA will need to agree to one of the updated "schedules" of changes as set forth under the revised Rehabilitation Plan. These schedule options include a new preferred schedule that does not require contribution increases but requires the employer to commit to remaining in the Plan for an additional five years, or the existing preferred schedule or a default schedule, both of which require annual contribution increases of 3% (starting January 1, 2016).

The contribution increases and 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.

If WAPA completely or partially withdrew from the Plan, it would be obligated to pay complete or partial withdrawal liability (which could be material). Pursuant to the last available notice (for the Plan year ended December 31, 2014), 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 2013**	**Funding Improvement Plan/Rehabilitation Plan Status**	**WAPA's Contribution 2015**	**2014**	**2013**	**Surcharge Imposed**	**Expiration Date of Collective Bargaining Agreements**
TNGIPP (Plan No. 001)	52-1082662	Red	Implemented	$ 151	$ 144	$ 144	Yes	July 21, 2015 June 27, 2016

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Hemisphere Media Group, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 12. Quarterly Financial Data (Unaudited)

(Amounts in thousands, except per share amounts)

	2015 Quarters Ended(a)			
	March 31	June 30	September 30	December 31
Net revenues	$ 29,471	$ 32,618	$ 31,465	$ 36,236
Operating income	7,056	8,780	7,951	11,079
Net income	2,462	3,431	2,910	4,934
Earnings per share:				
Basic	$ 0.06	$ 0.08	$ 0.07	$ 0.11
Dilutive	$ 0.06	$ 0.08	$ 0.07	$ 0.11

	2014 Quarters Ended(a)(b)			
	March 31	June 30	September 30	December 31
Net revenues	$ 20,951	$ 29,055	$ 28,781	$ 33,202
Operating income	3,647	6,612	5,559	10,211
Net income	248	5,318	663	4,330
Earnings per share:				
Basic	$ 0.01	$ 0.13	$ 0.02	$ 0.10
Dilutive	$ 0.01	$ 0.13	$ 0.02	$ 0.10

	2013 Quarters Ended(a)(c)			
	March 31	June 30	September 30	December 31
Net revenues	$ 13,495	$ 22,929	$ 23,705	$ 25,876
Operating (loss) income	(117)	(1,292)	4,110	5,019
Net (loss) income	(525)	(2,426)	(3,985)	2,639
Earnings (loss) per share:				
Basic	$ (525)	$ (0.06)	$ (0.09)	$ 0.06
Dilutive	$ (525)	$ (0.06)	$ (0.09)	$ 0.06

(a) The sum of the quarters will not equal the full year due to rounding.

(b) On April 1, 2014, the Cable Networks Acquisition was consummated, and the operating results are included in our consolidated financial statements as of the date of the acquisition.

(c) On April 4, 2013, the merger by and among Cinelatino, WAPA Holdings and Azteca providing for the combination of Cinelatino, WAPA Holdings and Azteca as indirect, wholly-owned subsidiaries of Hemisphere (the "Transaction") was consummated. Although Hemisphere issued the equity interests in the Transaction, since it was a new entity formed solely to issue these equity interests to effect the Transaction it was not considered the acquirer and one of the combining entities that existed before the transaction was identified as the acquirer. WAPA was identified as the accounting acquirer and predecessor, whose historical results became the results of Hemisphere. The operating results of the acquired businesses are included in our consolidated financial statements as of the Transaction date.

Explanation of Responses: