

HEMISPHERE MEDIA GROUP, INC.

Form 10-K

March 28, 2014

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

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**Form 10-K**

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(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 1-4219

**Hemisphere Media Group, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**80-0885255**

(I.R.S. Employer  
Identification No.)

**2000 Ponce de Leon Blvd., Suite 500  
Coral Gables, FL**

(Address of principal executive offices)

**33134**

(Zip Code)

**(305) 421-6364**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Class A common stock, \$0.0001 par value Securities Registered Pursuant to Section 12(g) of the Act:	The NASDAQ Stock Market LLC

Warrants to purchase Class A common stock, par value \$0.0001 per share

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

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

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

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

Large Accelerated Filer     Accelerated Filer     Non-accelerated Filer     Smaller reporting company   
(Do not check if a  
smaller reporting company)

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

The aggregate market value of the Class A common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 28, 2013, was approximately \$51,440,596. No market exists for the shares of Class B common stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act. The Class B common stock is convertible into Class A common stock on a share-for-share basis at the option of the holder. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers and other affiliates of the registrant and persons affiliated with Hemisphere Media Group, Inc. Exclusion of shares held by any person should not be construed as a conclusion by the registrant, or an admission by any such person, that such person is an "affiliate" of the Company, as defined by applicable securities laws.

<b>Class of Stock</b>	<b>Shares Outstanding as of March 24, 2014</b>
Class A common stock, par value \$0.0001 per share	12,120,603 shares
Class B common stock, par value \$0.0001 per share	33,000,000 shares

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for the 2014 Annual Meeting of Shareholders.

**HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES**  
**INDEX TO FORM 10-K**  
**December 31, 2013**

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**PART I**

*Unless otherwise indicated or the context requires otherwise, in this disclosure, references to the "Company," "Hemisphere," "registrant", "we," "us" or "our" refers to Hemisphere Media Group, Inc., a Delaware corporation and, where applicable, its consolidated subsidiaries; "Acquired Cable Business" refers to assets of Media World, LC and its affiliates primarily used in, or held for use in connection with, the operation or conduct of Media World LLC's Spanish-language television network business including: (i) Pasiones, (ii) Centroamerica TV and (iii) TV Dominicana; "Azteca" refers to Azteca Acquisition Corporation, a Delaware blank check corporation; "Azteca Merger Sub" refers to Hemisphere Merger Sub II, Inc., a Delaware corporation; "Cinelatino" refers to Cine Latino, Inc., a Delaware corporation; "Cine Merger Sub" refers to Hemisphere Merger Sub III, Inc., a Delaware corporation; "MVS" refers to Grupo MVS, S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable (variable capital corporation); "Networks" refers collectively to WAPA PR, WAPA2 Deportes, WAPA America and Cinelatino, except in the Section entitled Risk Factors, beginning on page 21, where such term has a different meaning; "Transaction" refers to collectively to the mergers of WAPA and WAPA Merger Sub, Azteca and Azteca Merger Sub, and Cinelatino and Cine Merger Sub, resulting in Azteca, WAPA and Cinelatino becoming indirect wholly-owned subsidiaries of Hemisphere; "WAPA" refers to WAPA Holdings, LLC, a Delaware limited liability company and, where applicable, its consolidated subsidiaries; "WAPA America" refers to WAPA America, Inc., a Delaware corporation; "WAPA Merger Sub" refers to Hemisphere Merger Sub I, LLC, a Delaware limited liability company; "WAPA PR" refers to Televiscentro of Puerto Rico, LLC, a Delaware limited liability company; "WAPA2 Deportes" refers to a sports television network in Puerto Rico operated by WAPA PR; "WAPA.TV" refers to a news and entertainment website in Puerto Rico operated by WAPA PR.*

**FORWARD-LOOKING STATEMENTS**

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

Statements in this Annual Report on Form 10-K, including the exhibits attached hereto, may contain certain statements about Hemisphere Media Group, Inc. (the "Company") and its consolidated subsidiaries that do not directly or exclusively relate to historical facts. The statements are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

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

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

Forward-looking statements are not guarantees of performance. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance, or achievements may vary materially from any future results, performance or achievements expressed or

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implied by these forward-looking statements. In addition to the risk factors described in "Item 1A Risk Factors" in this report, those factors include:

the reaction by advertisers, programming providers, strategic partners, the Federal Communications Commission (the "FCC") or other government regulators to (i) our previously completed Transaction and (ii) the consummation of the acquisition of the Acquired Cable Business;

the potential for viewership of our Networks' programming to decline;

the risk that we may fail to secure sufficient or additional advertising and/or subscription revenue;

the benefits of the combination of WAPA and Cinelatino, including the prospects of the combined businesses;

the risk that the closing conditions to which the acquisition of the Acquired Cable Business is subject are not satisfied;

our ability to successfully integrate the Acquired Cable Business and achieve the expected synergies from that integration at the expected costs;

the ability to realize anticipated growth and growth strategies of the combined company since the completion of (i) the Transaction and (ii) the acquisition of the Acquired Cable Business;

the ability to realize the anticipated benefits of (i) the Transaction and (ii) the acquisition of the Acquired Cable Business, in each case, which may be affected by, among other things, competition in the industry in which we operate;

the risk that we may become responsible for certain liabilities of the Acquired Cable Business;

the costs expected to be incurred in connection with the integration of us and the Acquired Cable Business;

the risk that integrating our business with that of the Acquired Cable Business may divert our management's attention;

our ability to obtain additional financing in the future;

our ability to successfully manage relationships with customers, distributors and other important relationships;

the loss of key personnel and/or talent or expenditure of a greater amount of resources attracting, retaining and motivating key personnel than in the past;

changes in technology;

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changes in pricing and availability of products and services;

the deterioration of general economic conditions, either nationally or in the local markets in which we operate; and

legislative or regulatory changes that may adversely affect our businesses.

The list of factors above is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All subsequent written and oral forward-looking statements concerning the matters addressed in this Annual Report on Form 10-K and attributable to us or any person acting on our behalf are qualified by these cautionary statements.

The forward-looking statements are based on current expectations about future events and are not guarantees of future performance, and are subject to certain risks, uncertainties and assumptions.

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

**Item 1. Business.**

**OVERVIEW**

**Our Company**

We are a leading U.S. Spanish-language media company serving the fast growing and highly attractive U.S. Hispanic and Latin America markets with the only two independently owned, fully-distributed Hispanic cable networks in the U.S. and dominant broadcast television network in Puerto Rico. Headquartered in Miami, Florida, we own and operate the following leading Spanish language networks and content platform:

*Cinelatino*: the leading Spanish-language cable movie network with over 13 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-Nielsen rated Spanish-language cable movie network in the U.S. and the #2-Nielsen rated Spanish-language cable television network in the U.S. overall.

*WAPA PR*: the leading broadcast television network and television content producer in Puerto Rico. WAPA PR has been the #1-rated broadcast television network in Puerto Rico for the last five years. WAPA PR is Puerto Rico's news leader and the largest local producer of entertainment programming, producing over 65 hours each week.

*WAPA America*: a cable television network serving primarily Puerto Ricans and other Caribbean Hispanics in the United States. WAPA America's programming includes news and entertainment offerings produced by WAPA PR. WAPA America is distributed in the U.S. to over 5 million subscribers.

*WAPA2 Deportes*: a leading sports television network in Puerto Rico, featuring Major League Baseball and professional sporting events from Puerto Rico. WAPA2 Deportes is distributed through WAPA PR's multicast signal and on all cable and satellite systems in Puerto Rico.

*WAPA.TV*: the leading broadband news and entertainment website in Puerto Rico featuring news and content produced by WAPA PR.

Hemisphere was incorporated in Delaware on January 16, 2013. On April 4, 2013, we completed a series of mergers pursuant to which WAPA, Cinelatino and Azteca, each became our indirect wholly-owned subsidiaries, which we refer to as the Transaction. Azteca, a special purpose acquisition vehicle, delivered the proceeds of a trust account raised in its 2011 initial public offering to us in the Transaction. Since the consummation of the Transaction, Azteca has had no operations and was subsequently dissolved on December 31, 2013. Shares of our Class A common stock, par value \$0.0001 per share ("Class A common stock") are publicly traded under the symbol "HMTV" on the Nasdaq Global Market ("NASDAQ"). Our warrants, exercisable for shares of Class A common stock

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("Warrants"), are publicly traded on the Over-the-Counter Bulletin Board under the ticker symbol "HMTVW."

**Recent Developments**

On January 22, 2014, Hemisphere Media Holdings, LLC, our indirect wholly owned subsidiary entered into an Asset Purchase Agreement (the "Acquisition Agreement"), with Media World, LLC, a Florida limited liability company ("Seller") and the other signatories named therein, pursuant to which we will acquire Seller's Spanish-language television network business (the "Acquisition"). The Acquisition includes the purchase by Hemisphere Media Holdings, LLC of assets of Seller and its affiliates primarily used in, or held for use in connection with, the operation or conduct of Seller's Spanish-language television network business, which we refer to as the Acquired Cable Business. The Acquired Cable Business includes the following cable networks: (i) *Pasioness*, dedicated to showcasing the most-popular telenovelas and series, distributed to approximately 3.8 million subscribers in the U.S. and 7.2 million subscribers in Latin America; (ii) *Centroamerica TV*, the leading network targeting the third largest U.S. Hispanic group, featuring the most popular news, entertainment and soccer programming from Central America with over 3.3 million subscribers in the U.S. and (iii) *TV Dominicana*, the leading network targeting Dominicans living in the U.S., featuring the most popular news, entertainment and baseball programming from the Dominican Republic, with over 2.2 million subscribers in the U.S. The Acquisition is expected to close immediately following the first quarter of 2014.

**Our Strategy**

Our strategy is to maintain and improve our position as a leading U.S. Spanish-language media company by, among other things, (i) investing in content for our Networks to build viewership, (ii) growing retransmission fees and subscriber revenues in both the U.S. and Latin America, and (iii) driving advertising sales, including launching advertising on Cinelatino's network distributed in the U.S. and Mexico. Additionally, we continue looking for attractive opportunities to acquire assets that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and primarily seek opportunities which will expand our leadership position in the fast growing and highly desirable Hispanic pay TV market. We intend to seek a variety of acquisition opportunities, including businesses where we believe a catalyst for value realization is already present, or where we can realize synergies with our existing businesses. We may also seek businesses that are in need of operational turnaround through our experienced and cohesive management team with the proven ability to develop and grow acquired assets.

**Employees**

At December 31, 2013, we and our subsidiaries employed 282 persons. In the normal course of business, we use contract personnel to supplement our employee base to meet business needs. We or our subsidiaries may hire additional personnel in connection with the closing of future acquisitions. We believe that employee relations are generally satisfactory. Approximately 150 of our employees based in Puerto Rico are covered by two collective bargaining agreements, which expire on July 23, 2015 and June 27, 2016, respectively. For more information, see Note 11, "Retirement Plans" of Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K.

**Business Segment**

We operate our business in one operating segment. Our two primary sources of revenue are advertising and retransmission/subscriber fees. Advertising revenue is generated from the sale of advertising time. The advertising sales success is demonstrated by large and diversified portfolio of advertising partners, including many Fortune 500 companies across a variety of industries, which is



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supplemented by the direct on-air advertising and the sale of air-time. At December 31, 2013, no single advertiser represented more than 5% of our consolidated revenue. 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. Cinelatino is currently commercial-free, but in an effort to further monetize Cinelatino's strong ratings and attractive audience, one of our primary objectives is to introduce advertising on Cinelatino in the U.S. and Mexico.

Retransmission and subscriber fees are charged to distributors of our television networks, including cable, satellite and telecommunication service providers. Our television networks are distributed pursuant to multi-year agreements that generally provide for monthly subscriber fees with annual rate increases and have terms of varying length. We recognize retransmission and subscriber fees when it is accrued pursuant to the agreements we have entered into with respect to such revenue.

**OUR NETWORKS**

**WAPA PR**

Headquartered in San Juan, Puerto Rico, WAPA PR is a full-power independent broadcast television network. WAPA PR was founded in 1954 as the second broadcast television network in the Caribbean and the third in Latin America. WAPA PR occupies a prime channel position (channel 4), and together with its full-power repeater stations, WTIN in Ponce and WNJX in Mayagüez, reaches the entire island with the strongest television signal in Puerto Rico. WAPA PR reaches more television households than any of its competitors in Puerto Rico. WAPA PR is also distributed by all cable, satellite and telecommunication service providers in Puerto Rico. According to Mediafax (2009) and Nielsen (2010-2013), WAPA PR has been the #1-rated network in Puerto Rico for five consecutive years, with an average household primetime rating of 15.9 and audience share of 27% in the year ended December 31, 2013.

WAPA owns a 65,000 square foot building housing WAPA's state-of-the-art production facilities, television studios, and administrative offices. All of WAPA PR's news and most of its local programs are produced at WAPA's production facility, which contains four television studios, including the largest television studio in the Caribbean, fully equipped control rooms, digital video, audio, editing, post editing, and graphic production suites, and a scenery shop which produces all scenery and props for the local productions. WAPA also boasts the most technologically advanced news department in Puerto Rico. WAPA recently upgraded its master control to accommodate WAPA PR, WAPA America and WAPA2 Deportes, installed a digital delivery system to streamline programming and promotions and upgraded WAPA PR's signal to high definition.

WAPA PR is Puerto Rico's news leader and the largest local producer of entertainment programming, producing over 65 hours in the aggregate each week. In addition to having the top-rated news programming, WAPA PR's top-rated local shows include *Entre Nosotras* (the #1-rated local talk show), *Pégate al Mediodía* (the #1-rated midday program), *Risas En Combo* (the #1-rated local primetime show) and two new shows launched in 2013, *Lo Se Todo* (the #1-rated daily show) and *El Tiempo es Oro* (the #1-rated game show). WAPA PR also licenses and televises blockbuster Hollywood movies and top-rated U.S. television series dubbed into Spanish. This diverse and unique mix of programming has made WAPA PR the market leader in Puerto Rico.

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**WAPA America**

WAPA America, launched in 2004, is a Spanish-language cable television network targeting Puerto Ricans and Caribbean Hispanics in the U.S. WAPA America is distributed by all major U.S. cable, satellite and telecommunication operators to more than 5 million subscribers. WAPA America televises over 65 hours per week of the top-rated news and entertainment programming produced by WAPA PR. WAPA America supplements its programming with acquired telenovelas, popular sports programming from Puerto Rico and other programming from WAPA PR's library.

WAPA America is primarily distributed on Hispanic programming packages, which generally consist of 20 or more channels, such as Cinelatino, CNN en Español, Discovery en Español, History en Español, ESPN Deportes and Fox Deportes. WAPA America is also distributed in more highly penetrated packages in select major markets including, Orlando and Tampa. Hispanic pay-TV subscribers are expected to grow driven by the rapid growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. WAPA America expects to capitalize on this strong growth. For more information, see " Industry."

**WAPA2 Deportes**

WAPA PR completed the transition from analog to digital broadcast transmission in 2009 making bandwidth within its signal available to launch a second channel in Puerto Rico. Management identified a need for a local sports television network and in 2010, launched WAPA2 Deportes a digital multicast channel broadcast by WAPA-TV. This network is distributed throughout Puerto Rico through WAPA PR's over-the-air signal and is carried by all cable, satellite and telecommunications distributors in Puerto Rico. WAPA2 Deportes broadcasts various local and U.S. sports programming, including *Major League Baseball*, with exclusive television rights to the World Series and the All-Star Game, and Puerto Rico's men's professional basketball league, *Baloncesto Superior Nacional*. In a short period of time, WAPA2 Deportes has become the leading local sports network in Puerto Rico and, on many nights, the station out-rates all U.S.-based networks, including ESPN, TNT and TBS.

**WAPA.TV**

Launched in 2008, WAPA's website, WAPA.TV has quickly grown into one of the largest digital multimedia platforms in Puerto Rico. WAPA.TV is the #1-rated television network website in Puerto Rico and is ranked #6 among Puerto Rico-originated sites. WAPA.TV provides up-to-the-minute news and weather, promotional clips of WAPA's most popular shows, additional video content not seen on WAPA PR, and a platform for viewers to share comments and interact, driving further audience engagement.

**Cinelatino**

Cinelatino is the leading Spanish-language cable movie network with over 13 million subscribers across the U.S., Latin America and Canada. Cinelatino is programmed with a lineup featuring what it believes to be the best contemporary films and original television series from Mexico, Latin America, the U.S. and Spain. Cinelatino was launched in Mexico in 1993, and introduced into the U.S. in 1995. Cinelatino is headquartered in Coral Gables, FL, and the network operations, as well as satellite and uplinking services are provided by MVS in Mexico City.

Cinelatino's programming acquisition strategy is specifically intended to provide the audience with the broadest selection of the most popular and highest-quality films across all of the popular genres, from Mexico and all other Latin American countries which have significant populations in the U.S., including Puerto Rico, Dominican Republic, Colombia and Venezuela. Consistent with its programming strategy, Cinelatino has acquired the rights to the majority of the highest grossing box office films in Mexico each year from 2007 to 2013. Cinelatino has an expansive library of over 475 of the best

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Spanish-language titles from suppliers across the globe. Driven by the strength of its programming and distribution, Cinelatino is the #1-Nielsen rated Spanish-language cable movie network in the U.S. and the #2-Nielsen rated Spanish-language cable television network in the U.S. overall. Cinelatino is currently commercial-free and generates 100% of its revenue through subscriber fees pursuant to multi-year distribution agreements. In an effort to further monetize Cinelatino's strong ratings and attractive audience, one of our primary objectives is to introduce advertising on Cinelatino in the U.S. and Mexico.

Cinelatino is distributed by all major U.S. cable, satellite and telecommunications operators on Hispanic program packages, and by many Latin American distributors, generally on basic video packages. Hispanic packages distributed in the U.S. generally consist of 20 or more Spanish-language channels, such as WAPA America, CNN en Español, Discovery en Español, History en Español, ESPN Deportes and Fox Deportes. Hispanic pay-TV subscribers are expected to grow driven by the rapid growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. Cinelatino expects to capitalize on this strong growth. For more information, see " Industry."

Cinelatino also has more than 9 million Latin American subscribers and is distributed in more than 15 countries throughout Latin America. Cinelatino is presently distributed to only 22% of total pay-TV subscribers throughout Latin America (excluding Brazil), representing a significant growth opportunity.

**OUR COMPETITION**

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

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

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

WAPA PR competes with broadcast television networks and cable television networks in Puerto Rico for audience viewership, advertising sales, and programming. WAPA PR's main competitors are television stations owned by Univision and Telemundo, which rely on their U.S. parents for programming, which consists primarily of telenovelas produced in Mexico, the U.S. and Latin America. There are a few other local broadcasters, but they tend not to be competitive due to weak

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programming and/or poor signal quality. WAPA PR reaches more television households in Puerto Rico than any of its competitors. In addition, while all major English-language U.S. broadcast networks have local affiliates, they are, for the most part, low power stations with nominal ratings. Only approximately half of the television households in Puerto Rico subscribe to pay-TV and cable channels are generally not competitive as they tend to be U.S.-based, English-language channels with little relevance to the Puerto Rico Spanish speaking market. WAPA PR has effectively customized its programming for the viewing preferences of the Puerto Rican market with more local entertainment and news programming than its competitors, as well as blockbuster Hollywood movies and hit U.S. television series. As a result, WAPA PR has been the ratings leader for the past five years. WAPA2 Deportes competes for viewership, advertising sales and programming with other channels offering similar sports programming in Puerto Rico. Competitors include U.S.-based cable networks, such as ESPN, TNT, and TBS, and certain satellite distributors who have acquired sports media rights for their owned channels. WAPA.TV competes with other news, weather and entertainment websites for the distribution of its content, development and acquisition of content, audience viewership and advertising sales. To an extent, WAPA.TV also competes with U.S. search engines and social networks, such as Google, Facebook and Yahoo, for website traffic.

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

**INTELLECTUAL PROPERTY**

Our intellectual property assets principally include copyrights in television programming, websites and other content, trademarks in brands, names and logos, domain names and licenses of intellectual property rights of various kinds. The protection of our Networks' brands and content is of primary importance to our success. To protect our intellectual property assets, we rely upon a combination of copyright, trademark, unfair competition, trade secret and Internet/domain name statutes, laws and contract provisions. However, there can be no assurance of the degree to which these measures will be successful in any given case.

**INDUSTRY**

**U.S. Hispanic Market**

*U.S. Hispanics*

Hispanics accounted for more than half of the growth in the total population of the United States between 2000 and 2012. As of the 2012 U.S. American Community Survey 1-Year Estimates Census, nearly 53 million Hispanics resided in the United States, which represents an increase of 17.6 million people, or 50% between 2000 and 2012. As a result of this growth, the U.S. Hispanic market now represents the second largest Hispanic economy in the world after Mexico. About 64% of the U.S. Hispanic population reported their origin as Mexican, followed by Puerto Rican, the second largest Hispanic group, at 9%. In addition, the Hispanic population on average is significantly younger than the overall population. The median age of U.S. Hispanics is 28, which is nearly ten years younger than the overall U.S. median age.

*U.S. Puerto Rican and Caribbean Hispanics*

Puerto Ricans are the second-largest Hispanic community in the U.S. behind Mexican Americans. There are 4.9 million Puerto Ricans and an additional 4.9 million Hispanics from other Caribbean countries residing in the U.S., and together, Puerto Ricans and other Caribbean Hispanics represent approximately 18% of the total U.S. Hispanic population. The Puerto Rican population in the U.S. grew 36% from 2000 to 2010, while the overall Caribbean Hispanic population grew 50% during the same time period.

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Spanish-language television programming in the U.S. is typically targeted towards the Mexican American audience. In many major U.S. markets, however, Puerto Ricans and other Caribbean Hispanics represent the great majority of the U.S. Hispanic population, exceeding Mexican Americans. These key markets include New York, Miami, Orlando, Tampa, Boston, Philadelphia and Hartford. Even in some of the largest U.S. markets, such as Chicago and Los Angeles, where Mexicans are the largest Hispanic group, Puerto Ricans represent a significant population segment.

**Hispanic Television and Pay-TV Landscape**

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

Growth in Hispanic TV households: U.S. Hispanic television households grew by over 30% during the period from 2006 to 2014, from 11.2 million households to 14.7 million households, approximately six times the overall U.S. television household growth of only 5%. The continuing rapid growth of Hispanic television households creates a significant opportunity to reach an attractive audience at a time when overall household growth in the U.S. is more modest.

Growth in Hispanic pay-TV subscribers: Hispanic pay-TV subscribers are expected to grow significantly, driven not only by the rapid growth in Hispanic television households, but also by the increased penetration of pay-TV among Hispanics. Hispanic pay-TV subscribers increased 57% from 2006 to 2014, growing from 7.9 to 12.4 million subscribers, nearly six times the 7% increase in overall U.S. pay-TV subscribers during the same period. This 41% growth also significantly over-indexes the 31% Hispanic television household growth during the same period.

**Television Viewing and Language Preferences**

Hispanics Enjoy Movies: In 2012, Hispanics had the highest per capita movie attendance, visiting theaters on average 9.5 times per year compared to about 6.8 times for the overall population. Hispanics make up 18% of the movie-going population and 25% of movie ticket sales.

Hispanics Prefer Television in Spanish: Spanish remains the preferred language in the homes of most U.S. Hispanics, and this powerfully influences television viewing habits. According to Nielsen, approximately 56% of Hispanics aged 18 and over prefer to speak Spanish in their homes. Spanish-dominant or bilingual homes comprise about 65% of U.S. Hispanic households, and these homes exhibit a strong preference to watch television in their native language. Spanish-dominant households view 78% of television in Spanish and bilingual homes view about 50% of television in Spanish. In the 2012-2013 broadcast season, while viewing to the four largest English-language broadcast networks declined overall, Spanish-language broadcast networks Univision and Telemundo both grew their audience.

**Hispanic Advertising Market**

Hispanic households represent approximately 17% of the total U.S. population and approximately 9% of the total U.S. discretionary consumption, but only 5% 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.

U.S. Hispanic cable advertising growth has significantly outpaced overall U.S. cable advertising growth as well as Hispanic broadcast advertising growth. U.S. Hispanic cable advertising revenue grew at a 17% CAGR from 2006 to 2013, nearly tripling from \$119 million to \$356 million. Going forward, U.S. Hispanic cable advertising is expected to grow to at an 11% CAGR from 2013 to 2015, far outpacing forecasted growth for all U.S. cable advertising of 8%, and U.S. Hispanic broadcast advertising of 5%.

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Similar to the under-indexing of U.S. general market cable advertising relative to viewing share 25 years ago, U.S. Hispanic cable advertising today significantly under-indexes relative to its share of the Spanish-language television audience. In 2013, U.S. Hispanic cable networks are expected to have garnered only 11% of total U.S. Hispanic television advertising.

**Latin American market (excluding Brazil)**

Latin America remains an attractive region due to its large population, shared language, strong economic growth and growing discretionary spend. Pay-TV subscribers in Latin America are projected to grow from 42 million in 2013 to 56 million by 2018, representing a CAGR of 6%, and pay-TV penetration of television households is expected to increase to 56%. This growth is expected to be driven by a sizeable and growing population, as well as a strong macroeconomic backdrop and rising disposable income across geographies. In addition, investments in network infrastructure have improved service and performance, leading to increased penetration for pay-TV operators.

**Puerto Rico Overview**

Puerto Rico is a U.S. territory and has a U.S. dollar-based economy, U.S. rule of law and strong governmental ties to the United States. The broadcast television industry in Puerto Rico is regulated by the U.S. Federal Communications Commission, and the banking system is regulated under the U.S. system (Federal Deposit Insurance Corporation). Puerto Rico has a population of approximately 3.7 million, with an additional 5.0 million Puerto Ricans living in the mainland U.S. All Puerto Ricans are U.S. citizens.

*Economy*

The Gross Domestic Product ("GDP") of Puerto Rico was \$101 billion in 2012, an increase of 0.5% over 2011, ranking Puerto Rico ahead of 15 U.S. states. While the Puerto Rico economy is strongly influenced by the U.S. business cycle, Puerto Rico's economy has declined each year since 2006, except for the modest growth shown in 2012. This prolonged recession is due to the long-term decline in the dominant manufacturing sector, decreased competitiveness as a result of expired federal tax benefits, and high energy costs. The economic hardship has been exacerbated by years of budgetary imbalance that has been funded through increased governmental borrowings. The increased governmental borrowings coupled with the weak economy led to the downgrading of the bonds issued by the Commonwealth of Puerto Rico to non-investment grade status by the credit rating agencies in early 2014.

A new administration entered office in 2013 and has taken what we believe to be strong and aggressive actions to control spending, reform the pension systems, and raised the corporate tax rate from 30% to 39%. Through these actions, the budget deficit will be reduced to a projected \$650 million as of June 30, 2014, down from \$3.3 billion on June 30, 2009. The administration has announced plans to introduce a balanced budget for fiscal 2015. Additionally, the administration has taken measures to promote economic development and job creation. In March 2014, the Commonwealth of Puerto Rico issued \$3.5 billion in bonds which is expected to ease the near-term liquidity pressures. The outlook though is expected to remain negative until the measures taken by the administration show evidence of promoting growth and economic revival.

*Puerto Rico Broadcast Television Market*

Puerto Rico has 1.4 million television households, comparable to that of a top 20 U.S. television market. Puerto Rico is the third largest U.S. Hispanic market behind Los Angeles and New York.

Puerto Rican television broadcasters capture the dominant share of viewership, which is unique relative to the U.S. The three primary broadcasters in Puerto Rico WAPA PR, Univision and

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Telemundo collectively garner approximately 70% of all television household viewership, distinguishing Puerto Rico from the U.S. television market, where the four major national broadcast networks (ABC, CBS, NBC and Fox) garner a collective primetime audience share of less than 40%. In fact, WAPA PR's ratings are more than three times higher than the most highly-rated broadcast network in the U.S., CBS.

**GOVERNMENT REGULATION**

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

*Introduction*

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

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

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

*FCC Licenses and Renewal*

The Communications Act permits the operation of a broadcast station only in accordance with a license issued by the FCC upon a finding that the grant of a license would serve the public interest, convenience and necessity. The FCC grants broadcast licenses for specified periods of time and, upon application, may renew the licenses for additional terms (ordinarily for the full term of eight years). Generally, the FCC renews a broadcast license upon a finding that (i) the broadcast station has served

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the public interest, convenience and necessity; (ii) there have been no serious violations by the licensee of the Communications Act or the FCC's rules; and (iii) there have been no other violations by the licensee of the Communications Act or other FCC rules which, taken together, indicate a pattern of abuse. After considering these factors, the FCC may renew a broadcast station's license, either with conditions or without, or it may designate the renewal application for hearing. In 2013, the FCC renewed our television licenses for full eight year terms expiring in 2021.

*Media Ownership Restrictions and FCC Proceedings*

The FCC's broadcast ownership rules affect the number, type and location of broadcast and newspaper properties that we are allowed to hold or acquire. The rules now in effect limit the common ownership, directly or by way attribution, operation or control of: (i) television stations serving the same area; (ii) television stations and daily newspapers serving the same area; and (iii) television stations and radio stations serving the same area. The rules also limit the aggregate national audience reach of television stations under common ownership, directly or by way of attribution. The FCC's rules also define the types of positions and interests that are considered attributable for purposes of the ownership limits. In general, officers, directors and stockholders holding 5% or more of the voting interests in Hemisphere are deemed to have attributable interests. The FCC's ownership limits therefore apply to our principals and certain investors in our Company.

The FCC is required by statute to review all of its broadcast ownership rules every four years to determine if such rules remain necessary in the public interest. In 2007, the FCC adopted a Report and Order fulfilling the FCC's obligation to review its media ownership rules every four years. The rules currently in effect are summarized below. Currently pending at the FCC is a Notice of Proposed Rulemaking issued in 2011 in which the FCC proposed to eliminate the radio/television cross-ownership rule and relax the newspaper/broadcast cross-ownership ban in the 20 largest television markets. The FCC also requested comments on whether local news service agreements and/or shared services agreements should be considered attributable for purposes of applying the media ownership restrictions.

*Local Television Ownership Rule*

Under the local television ownership rule, one party may own, operate, or control up to two television stations in a market, so long as the market would have at least eight independently owned full power television stations after the combination and at least one of the stations is not one of the top-four-rated stations (based on audience share) in the television market. The rule also permits the ownership, operation or control of two television stations in a market as long as the stations' Noise Limited Service contours do not overlap. In 2011 the FCC sought comments on its proposal to eliminate the contour overlap exception that permits common ownership of two television stations in the same market. At that time, the FCC proposed to grandfather existing common ownership of stations that would not be permitted after the elimination of this exception. The matter remains pending. Broadcast stations designated by the FCC as "satellite" stations are exempt from the local television ownership rule. WNJX-TV and WTIN-TV have been designated by the FCC as "satellite" stations of WAPA-TV, a division of WAPA PR. The FCC may also waive its local television ownership rule to permit ownership, operation or control of two television stations in a market that would not otherwise be permissible if one of the stations is in involuntary bankruptcy, is a "failed" station, or is "failing" (i.e., stations with negative cash flow and less than a four share all day audience rating). Under the rule, the licensee of a television station that provides more than 15% of another in-market station's weekly programming will be deemed to have an attributable interest in the other station.



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*Radio-Television Cross-Ownership Rule*

The radio-television cross-ownership rule generally allows common ownership of one or two television stations and up to six radio stations, or, in certain circumstances, one television station and seven radio stations, in any market where at least 20 independent voices would remain after the combination; two television stations and up to four radio stations in a market where at least 10 independent voices would remain after the combination; and one television and one radio station notwithstanding the number of independent voices in the market. A "voice" generally includes independently owned, same-market commercial and noncommercial broadcast television and radio stations, newspapers of certain minimum circulation, and one cable system per market.

*Newspaper-Broadcast Cross-Ownership Rule*

Under the currently effective newspaper-broadcast cross-ownership rule, unless grandfathered or subject to waiver, no party can have an attributable interest in both a daily newspaper (published at least 4 days a week, in the dominant language of the market, and with a circulation exceeding 5% of the households in the designated market area) and either a television station or a radio station in the same market if specified signal contours of the television station or the radio station encompass the entire community in which the newspaper is published.

*Attribution of Ownership*

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

Management services agreements and other types of shared services arrangements between same-market stations that do not include attributable time brokerage or joint sales components generally are not deemed attributable under the FCC's current ownership rules, but as indicated above, the FCC is considering a proposal to change this rule.

*Commission Approval of Transfer of Control of FCC Licenses*

The FCC's prior approval is required for the transfer of control or assignment of FCC licenses. We are currently controlled by InterMedia Partners VII, L.P. and its affiliates ("InterMedia"), which owns approximately 80% of our Class B common Stock, par value \$0.0001 per share ("Class B common stock"). The FCC's prior consent would be required prior to any transaction that would result in a change in control of Hemisphere or InterMedia. An application for consent to a transfer of control or assignment of licenses would be subject to a formal public notice and comment period during which petitions to deny the applications would be accepted by the FCC.

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

*Alien Ownership Restrictions*

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

Furthermore, the Communications Act provides that no FCC broadcast license may be granted to or held by any corporation directly or indirectly controlled by any other corporation of which more than 25% of the capital stock is owned or voted by non-U.S. citizens or entities or their representatives, by foreign governments or their representatives, or by non-U.S. corporations, if the FCC finds the public interest will be served by the refusal or revocation of such license. These restrictions apply in modified form to other forms of business organizations, including partnerships and limited liability companies. The FCC has interpreted this provision of the Communications Act to require an affirmative public interest finding before a broadcast license may be granted to or held by any such entity. In the past, the FCC has made such an affirmative finding with respect to broadcast licenses only in highly limited circumstances. In 2013, however, the FCC issued a declaratory ruling that notwithstanding its past practices, it will consider on a case-by-case basis requests for approval of acquisitions by aliens of in excess of 25% of the capital stock of the parent of a broadcast licensee. In acting upon such a request, the FCC will coordinate with Executive Branch agencies on national security, law enforcement, foreign policy and trade policy issues. Therefore, the FCC could revoke the licenses for WAPA PR's television stations if more than 25% of our outstanding capital stock is issued to or for the benefit of non-U.S. citizens, unless the FCC has ruled in advance that such investments by foreigners are in the public interest.

To the extent necessary to comply with the Communications Act and FCC rules and policies, our board of directors may (i) take any action it believes necessary to prohibit the ownership or voting of more than 25% of our outstanding capital stock by or for the account of aliens or their representatives or by a foreign government or representative thereof or by any entity organized under the laws of a foreign country (collectively, "Aliens"), or by any other entity (a) that is subject to or deemed to be subject to control by Aliens on a *de jure* or *de facto* basis or (b) owned by, or held for the benefit of Aliens in a manner that would cause us to be in violation of the Communications Act or FCC rules and policies; (ii) prohibit any transfer of our stock which we believe could cause more than 25% of our outstanding capital stock to be owned or voted by or for any person or entity identified in the foregoing clause (i); (iii) prohibit the ownership, voting or transfer of any portion of its outstanding capital stock to the extent the ownership, voting or transfer of such portion would cause us to violate or would otherwise result in violation of any provision of the Communications Act or FCC rules and policies; (iv) convert shares of our Class B common stock into shares of our Class A common stock to the extent necessary to bring us into compliance with the Communications Act or FCC rules and policies; and (v) redeem capital stock to the extent necessary to bring us into compliance with the

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Communications Act or FCC rules and policies or to prevent the loss or impairment of any of our FCC licenses.

*Digital Television*

As of June 12, 2009, all full-power broadcast television stations were required to cease broadcasting analog programming and convert to all digital broadcasts. Digital broadcasting allows stations to offer digital channels for a wide variety of services such as high definition video programming, multiple channels of standard definition video programming, such as WAPA2 Deportes, data, and other types of communications. Each station is required to provide at least one free over-the-air video program signal.

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

*MVPD Retransmission of Local Television Signals*

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

To ensure that every local television station can be received in its local market without requiring a cable subscriber to switch between cable and off-air signals, the FCC allows every full-power television broadcast station to require that all local cable systems and direct broadcast satellite transmit that station's primary digital channel to their subscribers within the station's market (the so-called "must-carry" rule). Alternatively, a station may elect to forego its must-carry rights and seek a negotiated agreement to establish the terms of its carriage by a local MVPD referred to as "retransmission consent." A station electing retransmission consent assumes the risk that it will not be able to strike a deal with the MVPD and will not be carried. A station has the opportunity to elect must-carry or retransmission consent every three years. Elections were made in October 2011 for the 2012-2014 three year period. WAPA PR elected retransmission consent and has entered into retransmission consent contracts with virtually all MVPD systems serving Puerto Rico.

MVPDs are not required to carry any programming streams other than a station's primary video programming channel. Consequently, WAPA PR's multicast channel WAPA2 Deportes is not entitled to mandatory carriage under the FCC's must-carry rules. However, we are free to negotiate with MVPDs for the carriage of additional programming streams.

In March 2011, the FCC issued a Notice of Proposed Rulemaking ("NPRM") reviewing the retransmission consent rules. The NPRM requests comment on proposals to strengthen the good faith negotiation requirements and to require advance notice of the potential that a television station could be dropped from an MVPD's programming lineup. In a separate proceeding, the FCC has requested comment on whether the definition of MVPD should be expanded to include entities that make available multiple channels of video programming to subscribers through Internet connections. Both proceedings are pending, and we cannot predict what impact, if any, they will have on our negotiations with video programming distributors.

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#### *Repurposing of Broadcast Spectrum for Other Uses*

In February 2012, Congress passed and the President signed legislation that, among other things, grants the FCC authority to conduct incentive auctions to recapture certain spectrum currently used by television broadcasters and repurpose it for other uses. On October 2, 2012, the FCC released a Notice of Proposed Rulemaking to begin to develop the rules and procedures to implement incentive auctions authorized by Congress. That rulemaking process remains ongoing.

The incentive auction process would have three components. First, the FCC would conduct a reverse auction by which each television broadcaster may choose to retain its rights to a 6 MHz channel of spectrum or volunteer, in return for payment, to relinquish all of the station's spectrum by surrendering its license; relinquish the right to some of its spectrum and thereafter share spectrum with another station; or modify its UHF channel license to a VHF channel license.

Second, in order to accommodate the spectrum reallocated to new users, the FCC will "repack" the remaining television broadcast spectrum, which may require certain television stations that did not participate in the reverse auction to modify their transmission facilities, including requiring such stations to operate on other channel designations. The FCC is authorized to reimburse stations for reasonable relocation costs up to a total across all stations of \$1.75 billion. In addition, Congress directed the FCC, when repacking to television broadcast spectrum, to make reasonable efforts to preserve a station's coverage area and population served. In addition, the FCC is prohibited from requiring a station to move involuntarily from the UHF band, the band in which WAPA PR's broadcast licenses operate, to the VHF band or from the high VHF band to the low VHF band.

Third, the FCC would conduct a forward auction of the relinquished spectrum to new users. The FCC must complete the reverse auction and the forward auction by September 30, 2022.

The outcome of the incentive auction and repacking of broadcast television spectrum, or the impact of such items on WAPA PR's business, cannot be predicted.

#### *EEO Rules*

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

#### *Recordkeeping*

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

#### *Bro*