HEMISPHERE MEDIA GROUP, INC.
Form 10-Q
November 09, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from to

Commission file number: 001-35886

HEMISPHERE MEDIA GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**80-0885255**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Hemisphere Media Group, Inc. **2000 Ponce de Leon Boulevard** **Suite 500** **Coral Gables, FL**	**33134**
(Address of principal executive offices)	(Zip Code)

(305) 421-6364

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Class of Stock	Shares Outstanding as of November 6, 2015
Class A common stock, par value $0.0001 per share	15,602,725 shares
Class B common stock, par value $0.0001 per share	30,027,418 shares

Table of Contents

HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

September 30, 2015

(Unaudited)

		PAGE NUMBER
PART I -	FINANCIAL INFORMATION	5
Item 1.	Financial Statements	5
	Notes to Condensed Consolidated Financial Statements	10
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	Controls and Procedures	22
PART II -	OTHER INFORMATION	23
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3.	Defaults Upon Senior Securities	23
Item 4.	Mine Safety Disclosures	23
Item 5.	Other Information	23
Item 6.	Exhibits	23
SIGNATURES		25

Table of Contents

PART I

Unless otherwise indicated or the context requires otherwise, in this disclosure, references to the Company, Hemisphere, registrant, we, us or our refers to Hemisphere Media Group, Inc., a Delaware corporation and, where applicable, its consolidated subsidiaries; Acquired Cable Networks refers to (i) Pasiones, (ii) Centroamerica TV and (iii) Television Dominicana; Amended Term Loan Facility refers to our term loan facility amended on July 31, 2014 as set forth on Exhibit 10.4 to the Company s Annual Report on Form 10-K; Azteca refers to Azteca Acquisition Corporation, a Delaware blank check corporation; Azteca Merger Sub refers to Hemisphere Merger Sub II, Inc., a Delaware corporation; Business refers collectively to our consolidated operations; Cable Networks Acquisition refers to the acquisition of the Acquired Cable Networks; Centroamerica TV refers to HMTV Centroamerica TV, LLC, a Delaware limited liability company; Cinelatino refers to Cine Latino, Inc., a Delaware corporation; Cine Merger Sub refers to Hemisphere Merger Sub III, Inc., a Delaware corporation; MVS refers to Grupo MVS, S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable (variable capital corporation) and its affiliates, as applicable; Distributors refers collectively to Satellite systems, telephone companies (telcos), and cable multiple system operators (MSO s), and the MSO s affiliated regional or individual cable systems. Networks refers collectively to WAPA, WAPA2 Deportes, WAPA America, Cinelatino, Pasiones, Centroamerica TV and Television Dominicana; Pasiones refers collectively to HMTV Pasiones US, LLC, a Delaware limited liability company and HMTV Pasiones LatAm, LLC, a Delaware limited liability company; Television Dominicana refers to HMTV TV Dominicana, LLC, a Delaware limited liability company; Transaction collectively refers to the mergers of WAPA Holdings and WAPA Merger Sub, Azteca and Azteca Merger Sub, and Cinelatino and Cine Merger Sub, resulting in Azteca, WAPA Holdings and Cinelatino becoming indirect wholly-owned subsidiaries of Hemisphere; WAPA refers to Televicentro of Puerto Rico, LLC, a Delaware limited liability company; WAPA America refers to WAPA America, Inc., a Delaware corporation; WAPA Holdings refers to WAPA Holdings, LLC, a Delaware limited liability company and, where applicable, its consolidated subsidiaries; WAPA Merger Sub refers to Hemisphere Merger Sub I, LLC, a Delaware limited liability company; WAPA2 Deportes refers to a sports television network in Puerto Rico operated by WAPA.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- the reaction by advertisers, programming providers, strategic partners, the Federal Communications Commission (the FCC) or other government regulators to businesses that we acquire;

- the potential for viewership of our Networks programming to decline or unexpected reductions in the number of subscribers to our Networks;

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

Table of Contents

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

- the ability to realize anticipated growth and growth strategies of the company since the completion of (i) the Transaction and (ii) the Cable Networks Acquisition;

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

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

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

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

- future financial performance, including our ability to obtain additional financing in the future on favorable terms;

- reduced access to capital markets or significant increases in borrowing costs;

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

- continued consolidation of Distributors in the marketplace;

- the inability of advertisers or affiliates to remit payment to us in a timely manner or at all;

- disagreements with our distributors over contract interpretation;

- the risk that ratings on Cinelatino may be negatively impacted by the introduction of advertising on Cinelatino;

- the outcome of any pending or threatened litigation;

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

- strikes or other union job actions that affect our operations;

- changes in technology, including changes in the distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand (VOD), internet protocol television, mobile personal devices and personal tablets and their impact on subscription and television advertising revenue;

- uncertainties inherent in the development of new business lines and business strategies;

- changes in pricing and availability of products and services;

- changes in the nature of key strategic relationships with partners and Distributors;

- the ability of suppliers and vendors to deliver products, and services;

- fluctuations in foreign currency exchange rates and political unrest and regulatory changes in the international markets in which we operate;

- the deterioration of general economic conditions, either nationally or in the local markets in which we operate, including Puerto Rico;

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

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

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

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Balance Sheets

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

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

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

(amounts in thousands, except per share amounts)

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(amounts in thousands)

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders Equity

Nine Months Ended September 30, 2015

(Unaudited)

(amounts in thousands)

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(amounts in thousands)

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

Ending	$	170,399	$	132,162
Supplemental Disclosures of Cash Flow Information:				
Cash payments for:				
Interest	$	8,466	$	8,304
Income taxes	$	4,128	$	3,720

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Notes to Condensed Consolidated Financial Statements

Note 1. Nature of business

Nature of business: The accompanying Condensed 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), and HMTV Cable, Inc., the parent company of the entities for the newly acquired networks consisting of Pasiones, TV Dominicana, and Centroamerica TV (see below). 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. In these notes, the terms Company, we, us or our mean Hemisphere and all subsidiaries included in our Condensed Consolidated Financial Statements.

Basis of presentation: The accompanying unaudited Condensed Consolidated Financial Statements for Hemisphere and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. In our opinion, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement have been included. Our financial condition as of, and operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the financial condition or results that may be expected for any future interim period or for the year ending December 31, 2015. These Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our 2014 Annual Report.

On April 1, 2014, we acquired the assets of three Spanish-language cable television networks for $101.9 million in cash. The three acquired cable networks include Pasiones, Centroamerica TV and Television Dominicana.

Reclassification: Certain prior year amounts presented in due from related parties accounts have been reclassified to accounts receivable on the accompanying condensed consolidated balance sheet, which resulted in an increase to accounts receivable and the related allowance for doubtful accounts to conform with the fiscal 2015 presentation with no impact to current assets.

Net earnings per common share: Basic earnings per share (EPS) are computed by dividing income 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Numerator for earnings per common share calculation:				
Net income	$ 2,910	$ 663	$ 8,805	$ 6,230
Denominator for earnings per common share calculation:				
Weighted-average common shares, basic	43,103	42,383	42,748	42,301
Effect of dilutive securities				
Stock options, restricted stock and warrants	1,040	204	815	233
Weighted-average common shares, diluted	44,143	42,587	43,563	42,534
EPS				
Basic	$ 0.07	$ 0.02	$ 0.21	$ 0.15
Diluted	$ 0.07	$ 0.02	$ 0.20	$ 0.15

We apply the treasury stock method to measure the dilutive effect of our outstanding stock options and restricted stock awards and include the respective common share equivalents in the denominator of our diluted income per common share calculation. Potentially dilutive securities representing 1.0 million shares of common stock for the three and nine months ended September 30, 2015, were excluded from the computation of diluted income per common share for this period because their effect would have been anti-dilutive. The net income per share amounts are the same for our Class A common stock, par value $0.0001 per share (Class A common stock) and Class B common stock, par value $0.0001 per share (Class B common stock), because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

Table of Contents

Use of estimates: In preparing these 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 sheet dates, and the reported revenues and expenses for the three and nine months ended September 30, 2015 and 2014. 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.

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.

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 the *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.

Note 2. Related party transactions

The Company has various agreements with 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. Expenses incurred under this agreement are included in cost of revenues in the accompanying condensed consolidated statements of operations. Total expenses incurred were $0.6 million and $0.5 million for the three months ended September 30, 2015 and 2014, respectively, and $1.6 million for each of the nine months ended September 30, 2015 and 2014.

- 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 $1.3 million and $1.1 million for the three months ended September 30, 2015 and 2014, respectively, and $3.7 million and $3.1 million for the nine months ended September 30, 2015 and 2014, respectively.

- An affiliation agreement through August 1, 2017 for the distribution and exhibition of Cinelatino s 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 $0.5 million for each of the three months ended September 30, 2015, and 2014, and $1.5 million and $1.4 million for the nine months ended September 30, 2015 and 2014, respectively.

Table of Contents

- 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 $0.0 million for the three and nine months ended September 30, 2015.

- In November 2013, Cinelatino licensed six movies from MVS. Expenses incurred under this agreement are included in cost of revenues and amounted to $0 for each of the three months ended September 30, 2015 and 2014. At September 30, 2015 and December 31, 2014, $0.0 million, is included in programming rights related to this agreement.

Amounts due from MVS pursuant to the agreements noted above amounted to $1.4 million and $1.3 million at September 30, 2015 and December 31, 2014, respectively, and are remitted monthly. Amounts due to MVS pursuant to the agreements noted above amounted to $0.9 million and $0.7 million at September 30, 2015 and December 31, 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 in the accompanying condensed consolidated statements of operations and amounted to $0.1 million for each of the three months ended September 30, 2015 and 2014, and $0.2 million for each of the nine months ended September 30, 2015 and 2014. Amounts due to this related party totaled $0.1 million at September 30, 2015 and December 31, 2014.

We have entered into programming agreements with Panamax Films, LLC (Panamax), an entity owned by James M. McNamara for the licensing of three movie titles. Expenses incurred under this agreement are included in cost of revenues in the accompanying condensed consolidated statements of operations, and amounted to $0.0 million for each of the three and nine months ended September 30, 2015 and 2014. At September 30, 2015 and December 31, 2014, $0.2 million, is included in Programming Rights in the accompanying condensed consolidated balance sheets.

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 condensed consolidated statements of operations and amounted to $0.0 million for the three and nine months ended September 30, 2015 and 2014. Total expenses incurred are included in cost of revenues in the accompanying condensed consolidated statements of operations and amounted to $0.0 million for each of the three and nine months ended September 30, 2015 and 2014. Amounts due to this related party totaled $0.1 million at September 30, 2015 and December 31, 2014.

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 condensed consolidated statements of operations, and amounted to $0.0 million and $0.1 million for each of the three and nine months ended September 30, 2015, respectively. At September 30, 2015, $0.3 million is included in programming rights in the accompanying condensed consolidated balance sheets related to this agreement.

We entered into a services agreement with InterMedia Advisors, LLC (IMA), which has officers, directors and stockholders in common with the Company, services including, without limitation, office space and operational support and 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 September 30, 2015 and December 31, 2014. Such expenses are included in selling, general and administrative expenses and amounted to $0.0 million for each of the three and nine month periods ended September 30, 2015 and 2014.

Table of Contents

Note 3. Goodwill and intangible assets

Goodwill and intangible assets consist of the following at September 30, 2015 and December 31, 2014 (*amounts in thousands*):

	September 30, 2015	December 31, 2014
Broadcast license	$ 41,356	$ 41,356
Goodwill	164,887	164,887
Other intangibles	81,531	91,611
Total intangible assets	**$ 287,774**	**$ 297,854**

A summary of changes in the Company s goodwill and other indefinite-lived intangible assets, on a net basis, for the nine months ended September 30, 2015 is as follows *(amounts in thousands)*:

	Net Balance at December 31, 2014	Additions	Impairment	Net Balance at September 30, 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**

A summary of the changes in the Company s other amortizable intangible assets for the nine months ended September 30, 2015 is as follows *(amounts in thousands)*:

	Net Balance at December 31, 2014	Additions	Amortization	Net Balance at September 30, 2015
Affiliate relationships	$ 69,064	$	$ (9,224)	$ 59,840
Advertiser Relationships	2,896		(414)	2,482
Non-Compete Agreement	2,882		(412)	2,470
Other intangibles	83	53	(83)	53
Total Finite-lived intangibles	**$ 74,925**	**$ 53**	**$ (10,133)**	**$ 64,845**

The aggregate amortization expense of the Company s amortizable intangible assets was $3.3 million and $3.7 million for the three months ended September 30, 2015 and 2014, respectively, and $10.1 million and $9.2 million for the nine months ended September 30, 2015 and 2014, respectively. The weighted average remaining amortization period is 5.3 years at September 30, 2015.

Future estimated amortization expense is as follows *(amounts in thousands):*

Year Ending December 31,		**Amount**
Remainder 2015	$	3,350
2016		13,417
2017		13,244
2018		13,187
2019		8,432
2020		6,027
2021 and thereafter		7,188
	$	64,845

Note 4. Income taxes

For the nine month periods ended September 30, 2015 and 2014, our income tax expense has been computed utilizing the estimated annual effective rates of 36.6% and 38.8% respectively. The difference between the annual effective rate of 36.6% and the statutory Federal income tax rate of 35% in the nine month period in 2015, is primarily due to state and foreign income taxes. The difference between the annual effective rate of 38.8% and the actual effective rate in the nine month period in 2014, is primarily due to the reversal of the valuation allowance previously recorded of $2.5 million, as we determined that it was reasonably certain that our foreign tax credits will be realized following the Cable Networks Acquisition on April 1, 2014.

In connection with the filing of our 2014 federal and state tax returns in September, we completed our return to provision true-up, which resulted in an increase in our deferred tax asset of $0.2 million and a decrease in our deferred tax liability of $1.8 million.

Income tax expense for the three and nine months ended September 30, 2015, was $2.0 million and $5.9 million, respectively. Income tax expense for the three months ended September 30, 2014, was $0.8 million and the income tax benefit for the nine months ended September 30, 2014 was $0.4 million.

Note 5. Long-term debt