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 March 31, 2018

or

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

For the transition period from to

Commission file number: 001-35886

HEMISPHERE MEDIA GROUP, INC.

(Exact name of registrant as specified in its charter)

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

Hemisphere Media Group, Inc. 4000 Ponce de Leon Boulevard Suite 650 Coral Gables, FL	**33146**
(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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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

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

Class of Stock	Shares Outstanding as of May 10, 2018
Class A common stock, par value $0.0001 per share	19,711,064 shares
Class B common stock, par value $0.0001 per share	19,720,381 shares

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HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES

INDEX TO FORM 10-Q

March 31, 2018

(Unaudited)

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PART I

Unless otherwise indicated or the context requires otherwise, in this disclosure, references to the Company, Hemisphere, registrant, we, us or our refers to Hemisphere Media Group, Inc., a Delaware corporation and, where applicable, its consolidated subsidiaries; Business refers collectively to our consolidated operations; Cable Networks refers to our Networks (as defined below) with the exception of WAPA and WAPA Deportes; Canal 1 refers to a joint venture among us and Radio Television Interamericana S.A., Compania de Medios de Informacion S.A.S. and NTC Nacional de Television y Comunicaciones S.A. to operate a broadcast television network in Colombia; Centroamerica TV refers to HMTV Centroamerica TV, LLC, a Delaware limited liability company; Cinelatino refers to Cine Latino, Inc., a Delaware corporation; Distributors refers collectively to satellite systems, telephone companies (telcos), and cable multiple system operators (MSO s), and the MSO s affiliated regional or individual cable systems; MVS refers to Grupo MVS, S.A. de C.V., a Mexican Sociedad Anonima de Capital Variable (variable capital corporation) and its affiliates, as applicable; Networks refers collectively to WAPA, WAPA Deportes, WAPA America, Cinelatino, Pasiones, Centroamerica TV and Television Dominicana; Nielsen refers to Nielsen Media Research; Pantaya refers to Pantaya, LLC, a Delaware limited liability company, a joint venture among us and a subsidiary of Lions Gate Entertainment, Inc.; Pasiones refers collectively to HMTV Pasiones US, LLC, a Delaware limited liability company, and HMTV Pasiones LatAm, LLC, a Delaware limited liability company; REMEZCLA refers to Remezcla, LLC, a New York limited liability company; Second Amended Term Loan Facility refers to our Term Loan Facility amended on February 14, 2017 as set forth on Exhibit 10.6 to the Company s Annual Report on Form 10-K for the year ended December 31, 2017; Television Dominicana refers to HMTV TV Dominicana, LLC, a Delaware limited liability company; Term Loan Facility refers to our term loan facility amended on July 31, 2014 as set forth on Exhibit 10.5 to the Company s Annual Report on Form 10-K for the year ended December 31, 2017; WAPA refers to Televicentro of Puerto Rico, LLC, a Delaware limited liability company; WAPA America refers to WAPA America, Inc., a Delaware corporation; WAPA Deportes refers to a sports television network in Puerto Rico operated by WAPA; WAPA.TV refers to a news and entertainment website in Puerto Rico operated by WAPA.

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 Hemisphere Media Group, Inc. (the Company) and its consolidated subsidiaries that do not directly or exclusively relate to historical facts. These statements are, or may be deemed to be, forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

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

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

Forward-looking statements are not guarantees of performance. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance, or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition to the risk factors described in Item 1A Risk Factors in this Quarterly Report on Form 10-Q, those factors include:

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

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- the timing under which power is fully restored to all of Puerto Rico and Nielsen begins ratings measurements in Puerto Rico following Hurricane Maria;

- our ability to timely and fully recover proceeds under our insurance policies in Puerto Rico following Hurricanes Maria and Irma;

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

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

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

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

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

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

- the failure of our Business to produce projected revenues or cash flows;

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

- our ability to successfully manage relationships with customers and Distributors and other important third parties;

- continued consolidation of Distributors in the marketplace;

- a failure to secure affiliate agreements or renewal of such agreements on less favorable terms;

- disagreements with our Distributors over contract interpretation;

- our success in acquiring, investing in and integrating complementary businesses;

- the outcome of any pending or threatened litigation;

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

- strikes or other union job actions that affect our operations, including, without limitation, failure to renew our collective bargaining agreements on mutually favorable terms;

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

- the failure or destruction of satellites or transmitter facilities that we depend upon to distribute our Networks;

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

- changes in pricing and availability of products and services;

- uncertainties regarding the financial results of equity method investees and changes in the nature of key strategic relationships with partners and Distributors;

- changes in domestic and foreign laws or regulations under which we operate;

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- changes in laws or treaties relating to taxation, or the interpretation thereof, in the U.S. or in the countries in which we operate;

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

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

- the deterioration of general economic conditions, either nationally or in the local markets in which we operate, including, without limitation, in the Commonwealth of Puerto Rico;

- changes in the size of the U.S. Hispanic population, including the impact of federal and state immigration legislation and policies on both the U.S. Hispanic population and persons emigrating from Latin America;

- changes in, or failure or inability to comply with, government regulations including, without limitation, regulations of the FCC, and adverse outcomes from regulatory proceedings; and

- competitor responses to our products and services.

The list of factors above is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All subsequent written and oral forward-looking statements concerning the matters addressed in this 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.

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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)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Current Assets		
Cash	$ 107,377	$ 124,299
Accounts receivable, net of allowance for doubtful accounts of $2,413 and $2,327, respectively	22,409	20,007
Due from related parties	2,397	2,169
Programming rights	7,605	7,723
Prepaids and other current assets	12,242	12,517
Total current assets	152,030	166,715
Programming rights, net of current portion	12,637	11,520
Property and equipment, net	25,416	24,433
Broadcast license	41,356	41,356
Goodwill	164,887	164,887
Other intangibles, net	48,380	51,661
Deferred income taxes	4,471	4,802
Equity method investments	38,481	30,907
Interest rate swap	2,253	773
Other assets	487	832
Total Assets	$ 490,398	$ 497,886
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 4,303	$ 3,465
Due to related parties	2,557	1,885
Accrued agency commissions	853	4,064
Accrued compensation and benefits	3,942	5,540
Accrued marketing	5,227	4,997
Other accrued expenses	3,438	3,795
Programming rights payable	3,953	2,920
Investee losses in excess of investment	5,372	2,806
Current portion of long-term debt	534	2,133
Total current liabilities	30,179	31,605
Programming rights payable, net of current portion	803	1,101
Long-term debt, net of current portion	205,121	205,509
Deferred income taxes	18,763	18,763
Defined benefit pension obligation	2,055	2,004
Total Liabilities	256,921	258,982
Stockholders Equity		

Preferred stock, $0.0001 par value; 50,000,000 shares authorized; 0 shares issued and outstanding at March 31, 2018 and December 31, 2017				
Class A common stock, $.0001 par value; 100,000,000 shares authorized; 25,173,137 shares and 25,171,433 issued at March 31, 2018 and December 31, 2017, respectively		3		3
Class B common stock, $.0001 par value; 33,000,000 shares authorized; 20,800,998 shares issued and outstanding at March 31, 2018 and December 31, 2017		2		2
Additional paid-in capital		266,345		265,329
Treasury stock, at cost 5,393,331 and 5,390,107 at March 31, 2018 and December 31, 2017, respectively		(57,337)		(57,303)
Retained earnings		22,842		30,401
Accumulated other comprehensive income		1,622		472
Total Stockholders Equity		233,477		238,904
Total Liabilities and Stockholders Equity	$	490,398	$	497,886

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

(amounts in thousands, except per share amounts)

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
Net revenues	$	29,035	$	33,159
Operating Expenses:				
Cost of revenues		9,427		10,245
Selling, general and administrative		10,584		9,492
Depreciation and amortization		3,997		4,115
Other expenses		233		2,250
Gain on disposition of assets		(3)		
Total operating expenses		24,238		26,102
Operating income		4,797		7,057
Other Expenses:				
Interest expense, net		(2,884)		(2,628)
Loss on equity method investments		(9,795)		
Total other expenses		(12,679)		(2,628)
(Loss) income before income taxes		(7,882)		4,429
Income tax benefit (expense)		323		(1,684)
Net (loss) income	$	(7,559)	$	2,745
(Loss) earnings per share:				
Basic	$	(0.19)	$	0.07
Diluted	$	(0.19)	$	0.07
Weighted average shares outstanding:				
Basic		38,955		40,514
Diluted		38,955		40,760

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statement of Comprehensive (Loss) Income

(Unaudited)

(amounts in thousands)

	Three Months Ended March 31,	
	2018	**2017**
Net (loss) income	$ (7,559)	$ 2,745
Change in fair value of interest rate swap, net of income taxes	1,150	
Comprehensive (loss) income	$ (6,409)	$ 2,745

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Changes in Stockholders Equity

Three Months Ended March 31, 2018

(Unaudited)

(amounts in thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-In	Class A Treasury	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Shares	Par Value	Capital	Stock	Earnings	Loss	Total
Balance at December 31, 2017	25,171	$ 3	20,801	$ 2	$ 265,329	$ (57,303)	$ 30,401	$ 472	$ 238,904
Net loss							(7,559)		(7,559)
Stock-based compensation					996				996
Repurchases of Class A Common Stock						(34)			(34)
Exercise of warrants	2	0			20				20
Other comprehensive income, net of tax								1,150	1,150
Balance at March 31, 2018	25,173	$ 3	20,801	$ 2	$ 266,345	$ (57,337)	$ 22,842	$ 1,622	$ 233,477

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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HEMISPHERE MEDIA GROUP, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(amounts in thousands)

	Three Months Ended March 31, 2018	2017
Reconciliation of Net (Loss) Income to Net Cash Provided by Operating Activities:		
Net (loss) income	$ (7,559)	$ 2,745
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,997	4,115
Program amortization	2,490	3,463
Amortization of deferred financing costs and original issue discount	146	181
Stock-based compensation	996	1,070
Provision for bad debts	84	1
Gain on disposition of assets	(3)	
Loss on equity method investments	9,795	
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(2,486)	1,433
Due from related parties	(228)	99
Programming rights	(3,489)	(6,511)
Prepaids and other assets	(1,945)	1,693
(Decrease) increase in:		
Accounts payable	838	(752)
Due to related parties	672	86
Accrued expenses	(4,991)	(6,569)
Programming rights payable	735	1,004
Taxes payable	55	1,248
Other liabilities	2,617	(293)
Net cash provided by operating activities	1,724	3,013
Cash Flows From Investing Activities:		
Funding of equity method investments	(14,803)	
Capital expenditures	(1,696)	(84)
Net cash used in investing activities	(16,499)	(84)
Cash Flows From Financing Activities:		
Repayments of long-term debt	(2,133)	(533)
Financing fees		(1,114)
Purchase of treasury stock	(34)	
Proceeds from exercise of warrants	20	
Net cash used in financing activities	(2,147)	(1,647)
Net (decrease) increase in cash	(16,922)	1,282
Cash:		
Beginning	124,299	163,090
Ending	$ 107,377	$ 164,372
Supplemental Disclosures of Cash Flow Information:		
Cash payments for:		
Interest	$ 2,768	$ 2,502

Income taxes	$	$ 47

See accompanying notes to Unaudited Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Nature of business

Nature of business: The accompanying Unaudited 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 Holdings), and HMTV Cable, Inc., the parent company of the entities for the acquired networks consisting of Pasiones, Television Dominicana, and Centroamerica TV. Hemisphere was incorporated in Delaware on January 16, 2013, and consummated its initial public offering on April 4, 2013. In these notes, the terms Company, we, us or our mean Hemisphere and all subsidiaries included in our Unaudited 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 (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 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 months ended March 31, 2018 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, 2018. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Net (loss) earnings per common share: Basic (loss) 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 (*amounts in thousands, except per share amounts):*

	Three Months Ended March 31,	
	2018	**2017**
Numerator for (loss) earnings per common share calculation:		
Net (loss) income	$ (7,559)	$ 2,745

Denominator for (loss) earnings per common share calculation:				
Weighted-average common shares, basic		38,955		40,514
Effect of dilutive securities Stock options, restricted stock and warrants				246
Weighted-average common shares, diluted		38,955		40,760
(Loss Per Share) Earnings Per Share				
Basic	$	(0.19)	$	0.07
Diluted	$	(0.19)	$	0.07

We apply the treasury stock method to measure the dilutive effect of our outstanding warrants, stock options and restricted stock awards and include the respective common share equivalents in the denominator of our diluted income per common share calculation. Per the Accounting Standards Codification (ASC) 260 accounting guidance, under the treasury stock method, the incremental shares (difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation (ASC 260-10-45-23). The assumed exercise only occurs when the warrants are In the Money (exercise price is lower than the average market price for the period). If the warrants are Out of the Money (exercise price is higher than the average market price for the period), the exercise is not assumed since the result would be anti-dilutive. Potentially dilutive securities representing 2.1 million shares of common stock as of the three months ended March 31, 2018 and March 31, 2017, respectively, 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.

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As a result of the net loss for the three months ended March 31, 2018, 0.2 million outstanding awards were not included in the computation of diluted (loss) earnings per share because their effect was anti-dilutive.

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 months ended March 31, 2018 and 2017. 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.

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

The adoption of the new accounting guidance did not result in changes in the way the Company records subscriber and retransmission fees, advertising revenue or content licensing fees. Guidance pertaining to the evaluation of whether revenue should be presented on a gross or net basis was changed in connection with the new revenue standard and the application of such change has been made in the presentation of revenues in the consolidated financial statements. The adoption of the new revenue standard did not have a material impact to our unaudited statement of operations for the three months ended March 31, 2018, and did not have a material impact to our unaudited consolidated balance sheet as of March 31, 2018.

Accounting guidance not yet adopted: In February 2018, the FASB issued *Accounting Standards Update (ASU) 2018 02 Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of certain tax effects from Accumulated other comprehensive income*. The amendments in this ASU apply to any entity that has items of other comprehensive income (OCI) for which the related tax effects are presented in OCI, as previously required by GAAP. This ASU allows a one time reclassification from OCI to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The amendments in this ASU are effective for all entities for annual periods beginning after December 31, 2018. Early adoption is permitted and the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of this Update on our consolidated financial statements.

In August 2017, the FASB issued *ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU apply to any entity that elects to apply hedge accounting and is intended to better align an entity s risk management activities and financial reporting for hedging relationships. The ASU amends effectiveness testing requirements, income statement

presentation and disclosures and permits additional risk management strategies to qualify for hedge accounting. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019. Early application is permitted; the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We are currently evaluating the impact of this Update on our consolidated financial statements.

In February 2016, the FASB issued *ASU 2016 02 Leases (Topic 842).* ASU 2016 02 amends the FASB ASC, creating Topic 842, Leases. Topic 842 affects any entity that enters into a lease, with specified scope exemptions, and supersedes Topic 840, Leases. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. The recognition, measurement and presentation of expenses and cash flows from a lease by a lessee have not changed significantly from previous GAAP. The principle difference from previous guidance is that the assets and liabilities arising from an operating lease should be recognized in the statement of financial position. The guidance will be effective for the first interim period of our 2019 fiscal year. Early application of the amendments in this update is permitted. We are currently evaluating the impact of this Update on our consolidated financial statements.

Note 2. Revenue Recognition

We transitioned to the FASB ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), from ASC 605, *Revenue Recognition*, on January 1, 2018 using the modified retrospective method. Our condensed consolidated financial statements reflect the application of ASC 606 guidance beginning January 1, 2018, while our condensed consolidated financial statements for

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prior periods were prepared under ASC 605 guidance. There were no cumulative effects of our transition to ASC 606. For more information, see Note 1, Basis of Presentation of Notes to Unaudited Condensed Consolidated Financial Statements.

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

Revenues by type	**Three months ended March 31, 2018**		**2017**	
Subscriber and Retransmission fees	$	18,433	$	19,453
Advertising revenue		9,918		13,567
Other revenue		684		139
Total revenue	$	29,035	$	33,159

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

Subscriber and Retransmission fees: We enter into arrangements with multi-channel video distributors, such as cable, satellite and telecommunications companies (referred to as MVPDs) to provide a continuous feed of our programming generally based on a per subscriber fee pursuant to multi-year contracts, referred to as affiliation agreements , which typically provide for annual rate increases. We have used the practical expedient related to the right to invoice and recognize revenue at the amount to which we have the right to invoice for services performed. The specific subscriber and retransmission fees we earn vary from period to period, distributor to distributor and also vary among our Networks, but are generally based upon the number of each distributor s paying subscribers who receive our Networks. Changes in subscriber and retransmission fees are primarily derived from changes in contractual per subscriber rates charged for our Networks and changes in the number of subscribers. MVPDs report their subscriber numbers to us generally on a two month lag. We record revenue based on estimates of the number of subscribers utilizing the most recently received remittance reporting of each MVPD, which is consistent with our past practice and industry practice. Revenue is recognized on a month by month basis when the performance obligations to provide service to the MVPDs is satisfied. Payment is typically received within 60 days.

Advertising revenue: Advertising revenues are generated from the sale of commercial time, which is typically sold pursuant to sale orders with advertisers providing for an agreed upon commitment and price per spot. We recognize revenue from the sale of advertising as performance obligations are satisfied upon airing of the advertising; therefore, revenue is recognized at a point in time when each advertising spot is transmitted. Agency fees are calculated based on a stated percentage applied to gross billing revenue for our advertising inventory and are reported as a reduction of advertising revenue. Payment is typically due and received within 30 days.

Other revenue: Other revenues are derived primarily through the licensing of our content to third parties. We enter into agreements to license content and recognize revenue when the performance obligation is satisfied and control is

transferred, which is generally upon delivery of the content.

Comparison to amounts if ASC 605 had been in effect

The following table reflects the impact of adoption of ASC 606 on our condensed consolidated statements of operations for the three months ended March 31, 2018 and the amounts as if the ASC 605 were still in effect (ASC 605 Presentation) *(amounts in thousands):*

	Three months ended March 31, 2018		
	ASC 606 Reported	Reclassification	ASC 605 Presentation
Total revenue	$ 29,035	$ (806)	$ 28,229
Operating expenses	$ 24,238	$ (806)	$ 23,432
Operating income	$ 4,797	$	$ 4,797

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Note 3. Related party transactions

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

- 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. We continue to operate under the terms of this agreement while we negotiate the renewal. Expenses incurred under this agreement are included in cost of revenues in the accompanying unaudited condensed consolidated statements of operations. Total expenses incurred were $0.7 million and $0.6 million for each of the three months ended March 31, 2018 and 2017, respectively, and are included in cost of revenues.

- An affiliation agreement through August 1, 2017, for the distribution and exhibition of Cinelatino s programming service through Dish Mexico (d/b/a Comercializadora de Frecuencias Satelitales, S. de R.L. de C.V.), an MVS affiliate that transmits television programming services throughout Mexico. We continue to operate under the terms of this agreement while we negotiate the renewal. Total revenues recognized were $0.5 million and $0.6 million for the three months ended March 31, 2018 and 2017, respectively.

Amounts due from MVS pursuant to the agreements noted above amounted to $2.4 million and $2.2 million at March 31, 2018 and December 31, 2017, respectively. Amounts due to MVS pursuant to the agreements noted above amounted to $2.6 million and $1.9 million at March 31, 2018 and December 31, 2017, respectively.

We renewed a three-year consulting agreement effective April 9, 2016 with James M. McNamara, a member of the Company s board of directors, to provide the development, production and maintenance of programming, affiliate relations, identification and negotiation of carriage opportunities, and the development, identification and negotiation of new business initiatives including sponsorship, new channels, direct-to-consumer programs and other interactive initiatives. Total expenses incurred under this agreement are included in selling, general and administrative expenses and amounted to $0.1 million for the three months ended March 31, 2018 and 2017. No amounts were due to this related party at March 31, 2018 and December 31, 2017.

We have entered into programming agreements with Panamax Films, LLC (Panamax), an entity owned by James M. McNamara, for the licensing of three specific movie titles. Expenses incurred under this agreement are included in cost of revenues in the accompanying unaudited condensed consolidated statements of operations, and amounted to $0.0 million for each of the three month periods ended March 31, 2018 and 2017. At March 31, 2018 and December 31, 2017, $0.1 million is included in programming rights in the accompanying unaudited condensed consolidated balance sheets related to these agreements.

We entered into agreements effective February 1, 2015, to license the rights to motion pictures from Lions Gate Films, Inc. (Lionsgate) for a total license fee of $1.0 million. Some of the titles are owned or controlled by Pantelion Films, LLC (Pantelion), for which Lionsgate acts as Pantelion s exclusive licensing agent. Pantelion is a joint venture made up of several organizations, including Panamax (an entity owned by James M. McNamara), Lionsgate and Grupo Televisa. Fees paid by Cinelatino to Lionsgate may be remunerated to Pantelion in accordance with their financial arrangements. Expenses incurred under this agreement are included in cost of revenues in the accompanying unaudited condensed consolidated statements of operations, and amounted to $0.0 million and $0.1 million for the three month periods ended March 31, 2018 and 2017, respectively. At March 31, 2018 and December 31, 2017, $0.0 million and $0.1 million, respectively, is included in programming rights in the accompanying unaudited condensed consolidated balance sheets.

We entered into an agreement effective June 22, 2017, to purchase the rights to motion pictures from Frontera Productions, LLC. One of our former Board members holds an equity stake in this entity. The total license fee is $0.1 million. Expenses incurred under this agreement are included in cost of revenues in the accompanying consolidated statements of operations, and amounted to $0.0 million for the three months ended March 31, 2018. At March 31, 2018 and December 31, 2017, $0.1 million and $0.0 million, respectively, is included in programming rights related to this agreement, in the accompanying consolidated balance sheet. There was no amount due to this related party as of March 31, 2018 and December 31, 2017.

Note 4. Goodwill and intangible assets

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

	March 31, 2018	**December 31, 2017**
Broadcast license	$ 41,356	$ 41,356
Goodwill	164,887	164,887
Other intangibles	48,380	51,661
Total intangible assets	**$** 254,623	**$** 257,904

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

	Net Balance at December 31, 2017	Additions	Impairment	Net Balance at March 31, 2018
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 three months ended March 31, 2018 is as follows *(amounts in thousands)*:

	Net Balance at December 31, 2017	Additions	Amortization	Net Balance at March 31, 2018
Affiliate relationships	$ 32,343	$	$ (3,017)	$ 29,326
Advertiser relationships	1,240		(138)	1,102
Non-compete agreement	1,235		(137)	1,098
Other intangibles	157	33	(22)	168
Total finite-lived intangibles	**$** 34,975	**$** 33	**$** (3,314)	**$** 31,694

The aggregate amortization expense of the Company s amortizable intangible assets was $3.3 million and $3.4 million for the three months ended March 31, 2018 and 2017, respectively. The weighted average remaining amortization period is 3.3 years at March 31, 2018.

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

Year Ending December 31,	Amount
Remainder of 2018	$ 9,933
2019	8,497
2020	6,069
2021	5,757
2022 and thereafter	1,438
Total	$ 31,694

Note 5. Equity method investments

The Company makes investments that support its underlying business strategy and enable it to enter new markets. The carrying values of the Company s equity method investments are typically consistent with its ownership in the underlying net assets of the investees, with the exception of Canal 1 and Pantaya. Due to losses in excess of capital contributions, the Company has recorded nearly 100% of the losses on Canal 1. The Company has recorded losses in excess of the amount invested in Pantaya. Certain of the Company s equity investments are variable interest

entities, for which the Company is not the primary beneficiary.

On November 3, 2016, we acquired a 25% interest in Pantaya, a newly formed joint venture with Lionsgate, to launch a Spanish-language OTT movie service. The service launched on August 1, 2017. The investment is deemed a variable interest entity (VIE) that is accounted for under the equity method. As of March 31, 2018, we have not funded any capital contributions to Pantaya. In accordance with U.S. GAAP, since we are committed to provide future capital contributions to Pantaya, we continue to record our proportionate share of losses on a one quarter lag. For the three months ended March 31, 2018, we have recorded $2.6 million in Loss on equity method investments related to Pantaya, which is presented as a liability in the accompanying balance sheet. There was no loss incurred in the three months ended March 31, 2017. The Company s maximum exposure to loss on our investment in Pantaya is limited to our funding commitment.

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On November 30, 2016, we, in partnership with Colombian content producers, Radio Television Interamericana S.A., Compania de Medios de Informacion S.A.S. and NTC Nacional de Television y Comunicaciones S.A., were awarded a ten (10) year renewable television broadcast concession license for Canal 1 in Colombia. Canal 1 is one of only three national broadcast television networks in Colombia. The partnership began operating Canal 1 on May 1, 2017. On February 7, 2018, Colombian regulatory authorities approved an increase in our ownership in the joint venture to 40%. The joint venture is deemed a VIE that is accounted for under the equity method. We earn a preferred return on the capital funded, which is recorded quarterly as an offset to the loss on the investment. As of March 31, 2018, we have recorded $49.8 million in Equity method investments related to Canal 1. We record the income or loss on investment on a one quarter lag. For the three months ended March 31, 2018, we recorded $7.1 million, net of preferred return, in Loss on equity method investments. The Canal 1 joint venture losses to date have exceeded the capital contributions of the common equity partners and as a result, in accordance with equity method accounting, equity losses in excess of the common equity have been recorded against the next layer of the capital structure, in this case, preferred equity. The Company is currently the sole preferred equity holder in Canal 1 and therefore, the Company has recorded nearly 100% of the losses of the joint venture. For the three months ended March 31, 2018, we recorded $1.4 million of income, as an offset to losses incurred in Loss on equity method investments. There was no loss incurred for the three months ended March 31, 2017. The net balance recorded in Equity method investments related to Canal 1 joint venture was $33.6 million and $25.9 million at March 31, 2018 and December 31, 2017, respectively.

On April 28, 2017, we acquired a 25.5% interest in REMEZCLA, a digital media company targeting English speaking and bilingual U.S. Hispanics millennials through innovative content. As of March 31, 2018, we have recorded $5.0 million in Equity method investments related to REMEZCLA. The Company records the income or loss on investment on a one quarter lag. For the three months ended March 31, 2018, we have recorded $0.3 million in Loss on equity method investments related to this investment. Additionally, we earned a preferred return on capital funded. For the three months ended March 31, 2018, we recorded $0.2 million of income as an offset to the loss incurred in loss on equity method investments. The net investment recorded in Equity method investments was $4.9 million and $5.0 million at March 31, 2018 and December 31, 2017, respectively. We have no additional commitment to fund the operations of the venture which limits the maximum exposure to loss on our investment in Remezcla to our investment of $5.0 million.

The Company records the income or loss on investments on a one quarter lag. Summary unaudited financial data for our equity investments in the aggregate as of the three months ended December 31, 2017 are included below *(amounts in thousands):*

Equity Method Investees		**Amount**
Current assets	$	7,234
Non-current assets	$	56,783
Current liabilities	$	35,109
Non-current liabilities	$	52,514
Redeemable stock and noncontrolling interests	$	14,235
Net revenue	$	4,396
Operating loss	$	(17,473)
Net loss	$	(19,788)

Note 6. Income taxes

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

For the three months ended March 31, 2018 and 2017, our income tax expense has been computed utilizing the estimated annual effective rates of 47.7% and 35.9%, respectively. The difference between the annual effective rate of 47.7 % and the statutory Federal income tax rate of 21% in the three month period ended March 31, 2018, is primarily due to the impact of the Tax Act and the related impact to the valuation allowance on foreign tax credits. The annual effective tax rate related to income generated in the U.S. is 22.3%. Due to the reduced U.S. tax rate, the Company determined that a portion of its foreign income, which is taxed at a higher rate, will result in the generation of excess foreign tax credits that will not be available to offset U.S. tax. As a result, 25.3% of the annual effective rate relates to the required valuation allowance against the excess foreign tax credits, bringing the annual effective tax rate for the three month period ended March 31, 2018 to 47.7%. The difference between the annual effective rate of 35.9% and the statutory Federal income tax rate of 35% in the three month period ended March 31, 2017, is primarily due to state taxes.

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The Company evaluated the impact of the interest income limitation from the Tax Act and do not expect that there will not be a limitation on the ability to deduct interest expense for tax purposes for the year ended December 31, 2018.

Income tax benefit was $0.3 million for the three month period ended March 31, 2018 compared to an income tax expense of $1.7 million for the three month period ended March 31, 2017.

Note 7. Long-term debt

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

	March 31, 2018	December 31, 2017
Senior Notes due February 2024	$ 205,655	$ 207,642