HEMISPHERE MEDIA GROUP, INC.
Form 10-K
March 15, 2017

Use these links to rapidly review the document


Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2016**

**OR**

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

**For the transition period from to**
**Commission file number: 001-35886**

# Hemisphere Media Group, Inc.

(Exact name of registrant as specified in its charter)

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

**(305) 421-6364**
(Registrant's telephone number, including area code)

**Not Applicable**
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 ý or No o.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý | Non-accelerated Filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

The aggregate market value of the Class A common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2016, was approximately $115,071,747. No market exists for the shares of Class B common stock, which is neither registered under Section 12 of the Act nor subject to Section 15(d) of the Act. The Class B common stock is convertible into Class A common stock on a share-for-share basis at the option of the holder. For the sole purpose of making this calculation, the term "non-affiliate" has been interpreted to exclude directors and executive officers and other affiliates of the registrant and persons affiliated with Hemisphere Media Group, Inc. Exclusion of shares held by any person should not be construed as a conclusion by the registrant, or an admission by any such person, that such person is an "affiliate" of the Company, as defined by applicable securities laws.

| Class of Stock | Shares Outstanding as of March 14, 2017 |
| --- | --- |
| Class A common stock, par value $0.0001 per share | 21,900,160 shares |
| Class B common stock, par value $0.0001 per share | 20,800,998 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 2017 Annual Meeting of Shareholders.

**HEMISPHERE MEDIA GROUP, INC. AND SUBSIDIARIES**
**INDEX TO FORM 10-K**
**December 31, 2016**

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; "Amended Term Loan Facility" refers to our Term Loan Facility amended on February 14, 2017 as set forth on Exhibit 10.6 to this Annual Report on Form 10-K; "Business" refers collectively to our consolidated operations; "Cable Networks" refers to our Networks (as defined below) with the exception of WAPA and WAPA2 Deportes; "Canal Uno" 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; "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; "Nielsen" refers to Nielsen Media Research; "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; "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, 2015; "WAPA" refers to Televicentro of Puerto Rico, LLC, a Delaware limited liability company; "WAPA America" refers to WAPA America, Inc., a Delaware corporation; "WAPA2 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 Annual Report on Form 10-K, including the exhibits attached hereto, future filings by us with the Securities and Exchange Commission, our press releases and oral statements made by, or with the approval of, our authorized personnel, that relate to our future performance or future events, may contain certain statements about Hemisphere Media Group, Inc. (the "Company") and its consolidated subsidiaries that do not directly or exclusively relate to historical facts. These statements are, or may be deemed to be, "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

These forward-looking statements are necessarily estimates reflecting the best judgment and current expectations, plans, assumptions and beliefs about future events (in each case subject to change) of our senior management and management of our subsidiaries (including target businesses) and involve a number of risks, uncertainties and other factors, some of which may be beyond our control that could cause actual results to differ materially from those expressed or implied in such forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "expect," "positioned," "strategy," "future," "potential," "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.

Table of Contents

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

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

- the 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 relationships;
- 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;

Table of Contents

- 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, without limitation, in the Commonwealth of Puerto Rico;
- changes in the size of the U.S. Hispanic population, including the impact of federal and state immigration legislation and policies on both the U.S. Hispanic population and persons emigrating from Latin America;
- changes in, or failure or inability to comply with, government regulations including, without limitation, regulations of the FCC, and adverse outcomes from regulatory proceedings; and
- competitor responses to our products and services.

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

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

## Item 1. Business.

### OVERVIEW

#### Our Company

We are a leading U.S. Spanish-language media company serving the fast growing and highly attractive U.S. Hispanic and Latin American markets with five Spanish-language cable television networks distributed in the U.S., two Spanish-language cable television networks distributed in Latin America, and the #1-rated broadcast television network in Puerto Rico.

Headquartered in Miami, Florida, we own and operate the following leading Spanish-language networks and content production platform, including leading movie and telenovela channels, two of the most popular Hispanic entertainment genres, and the leading cable television networks targeting the second, third and fourth largest U.S. Hispanic groups:

*Cinelatino*: the leading Spanish-language cable movie network with 20 million subscribers across the U.S., Latin America and Canada, including 4.6 million subscribers in the U.S. and 15.4 million subscribers in Latin America. 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 #2-Nielsen rated Spanish-language cable television network in the U.S. overall, based on coverage ratings.

*WAPA*: the leading broadcast television network and television content producer in Puerto Rico. WAPA has been the #1-rated broadcast television network in Puerto Rico for the last eight years. WAPA is Puerto Rico's news leader and the largest local producer of news and entertainment programming, producing approximately 70 hours in the aggregate each week of programming that is aired on WAPA and WAPA America. Through WAPA's multicast signal, we distribute WAPA2 Deportes, a leading sports television network in Puerto Rico, featuring *Major League Baseball (MLB)*, *National Basketball Association (NBA)* and professional sporting events from Puerto Rico. Additionally, we operate WAPA.TV, the leading broadband news and entertainment website in Puerto Rico featuring news and content produced by WAPA.

*WAPA America*: a cable television network serving primarily Puerto Ricans and other Caribbean Hispanics in the U.S., collectively the second largest segment of the U.S. Hispanic population. WAPA America's programming features news and entertainment offerings produced by WAPA. WAPA America is distributed in the U.S. to 5.3 million subscribers.

*Pasiones*: a cable television network dedicated to showcasing the most popular telenovelas and serialized dramas, licensed from major producers and distributors worldwide. Pasiones is distributed in the U.S. to 4.6 million subscribers and in Latin America to 13.2 million subscribers.

*Centroamerica TV:* a cable television network targeting Central Americans living in the U.S., the third largest U.S. Hispanic group and the fastest growing segment of the U.S. Hispanic population. Centroamerica TV features the most popular news and entertainment from Central America, as well as soccer programming from the top professional soccer leagues in the region. Centroamerica TV is distributed in the U.S. to 4.1 million subscribers.

*Television Dominicana:* a cable television network targeting Dominicans living in the U.S., the fourth largest U.S. Hispanic group. Television Dominicana features the most popular news and entertainment from the Dominican Republic and is distributed in the U.S. to 3.2 million subscribers.

Table of Contents

Hemisphere was incorporated in Delaware on January 16, 2013. Shares of our Class A common stock, par value $0.0001 per share ("Class A common stock") are publicly traded under the symbol "HMTV" on the Nasdaq Global Market ("NASDAQ"). Our warrants, exercisable for shares of Class A common stock ("Warrants"), are publicly traded on the Over-the-Counter Bulletin Board under the ticker symbol "HMTVW."

**Our Strategy**

Our strategy is to provide unique programming focused on underserved but significant segments of the U.S. Hispanic population, allowing us to reach a deeper and broader U.S. Hispanic demographic than our competitors. Our objective is to maintain and improve our position as a leading U.S. Spanish-language media company by, among other things, (i) investing in content for our Networks to build viewership, (ii) growing retransmission fees in Puerto Rico and subscriber revenues in both the U.S. and Latin America, and (iii) driving advertising sales, including advertising on Cinelatino in the U.S. which was converted to ad-supported in July 2015. Additionally, we continue to look for attractive opportunities to acquire assets that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and primarily seek opportunities which will (i) expand our leadership position in the fast growing and highly desirable U.S. Hispanic pay-TV market, (ii) expand our portfolio within broadcast networks, and/or cable networks in Latin America and (iii) identify opportunities to create and/or distribute content to U.S. Hispanics and Latin Americans through digital platforms. We may also seek a variety of acquisition opportunities, including businesses where we believe an opportunity for value realization is already present, where we can realize synergies with our existing businesses, or that are in need of operational turnaround, which we believe would benefit from our experienced and cohesive management team with the proven ability to develop and grow acquired assets. At any given time, we may be in discussions relating to one or more acquisition opportunities. Additionally, we evaluate various digital strategies, from time to time.

**Employees**

At December 31, 2016, we and our subsidiaries employed 294 full-time persons. In the normal course of business, we use contract personnel to supplement our employee base to meet business needs. We or our subsidiaries may hire additional personnel in connection with the closing of future acquisitions. We believe that employee relations are generally satisfactory. Approximately 139 of our employees based in Puerto Rico are full-time unionized employees covered by two collective bargaining agreements (each, a "CBA" and collectively, the "CBAs"), one of which was scheduled to expire on July 23, 2015 and the other which expires on June 27, 2019. Pursuant to its terms, the CBA which was scheduled to expire on July 23, 2015 automatically renewed for a period of eighteen (18) months upon such expiration date and remained in effect through January 23, 2017. Following the expiration of the extension period, the Company and Union de Periodistas Artes Graficas y Ramas Anexas (UPAGRA) continue to engage in active and good faith negotiations.

**Revenue Sources**

We operate our business in one operating segment. Our two primary sources of revenue are advertising revenues and retransmission/subscriber fees. All of our networks generate both advertising revenues and retransmission/subscriber fees. Historically, Cinelatino had been commercial-free and generated 100% of its revenue from subscriber fees. However, to further monetize Cinelatino's strong ratings and attractive audience, we introduced advertising on Cinelatino's U.S. feed in July 2015. Advertising revenue is generated from the sale of advertising time. Our advertising revenue tends to reflect seasonal patterns of our advertisers' demand, which is generally greatest during the fourth quarter of each year, driven by the holiday buying season. In addition, Puerto Rico's political election cycle occurs every four years and WAPA benefits from increased advertising sales in an election year.

Table of Contents

For example, in 2016, WAPA experienced higher advertising sales as a result of political advertising spending during the 2016 governmental elections. The next election in Puerto Rico will occur in 2020.

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. For the year ended December 31, 2016, revenue earned under affiliation agreements with two Distributors, DISH Network, LLC and AT&T Inc. (as successor to DirecTV following the completion of their merger), each accounted for more than 10% of our total net revenues. We recognize retransmission and subscriber fees when they are accrued pursuant to the agreements we have entered into with respect to such revenue. We set forth our net revenue, total assets and operating income in "Item 8. Financial Statements and Supplementary Data."

We generate over 93% of our net revenues from the United States. For the years ended December 31, 2016, 2015 and 2014, we generated $129.3 million, $120.6 million and $103.7 million, respectively, from the United States. For the years ended December 31, 2016, 2015 and 2014, we generated $9.2 million, $9.2 million and $8.3 million, respectively, from outside the United States.

**OUR NETWORKS AND JOINT VENTURES**

**WAPA**

Headquartered in San Juan, Puerto Rico, WAPA is a full-power independent broadcast television network. WAPA was founded in 1954 as the second broadcast television network in the Caribbean and the third in Latin America. WAPA occupies a prime channel position (channel 4), 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 reaches more television households than any of its competitors in Puerto Rico. WAPA is also distributed by all cable, satellite and telecommunication service providers in Puerto Rico. WAPA has been the #1-rated broadcast television network in Puerto Rico for eight consecutive years, with an average household primetime rating of 17.2 and audience share of 32.9% in the year ended December 31, 2016.

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

WAPA is Puerto Rico's news leader and the largest local producer of entertainment programming, producing approximately 70 hours in the aggregate each week. In addition to having the top-rated morning, mid-day, evening and late night newscast, WAPA's top-rated local shows include *Pégate al Mediodía* (the #1-rated midday program), and *Lo Se Todo* (the #1-rated daily show). WAPA also licenses and televises blockbuster Hollywood movies and top-rated U.S. television series dubbed into Spanish. This diverse and unique mix of programming has made WAPA the market leader in Puerto Rico.

Table of Contents

In 2009, WAPA launched WAPA2 Deportes in Puerto Rico through its over-the-air signal and carriage by all cable, satellite and telecommunications distributors in Puerto Rico. WAPA2 Deportes broadcasts various local and U.S. sports programming, including *MLB*, with exclusive television rights to the World Series and the All-Star Game, *NBA* and Puerto Rico's professional men's basketball league, *Baloncesto Superior Nacional*. In a short period of time, WAPA2 Deportes has become the leading local sports network in Puerto Rico.

In 2008, WAPA launched WAPA.TV, which is now one of the most visited local sites in Puerto Rico. WAPA.TV provides up-to-the-minute news and weather, promotional clips of WAPA's most popular shows, additional video content not seen on WAPA, and a platform for viewers to share comments and interact, driving further audience engagement. In 2016, WAPA.TV's mobile web version, WAPA Movil, had 105.9 million total page views, 37.7 million total visits and 1.2 million average monthly unique visitors.

**WAPA America**

WAPA America, launched in 2004, is a Spanish-language cable television network targeting viewers from Puerto Rico, as well as the Dominican Republic, Cuba, Venezuela and Colombia (collectively referred to as "Caribbean Hispanics"), who reside in the U.S. Caribbean Hispanics are the second largest U.S. Hispanic population segment, representing 18% of the U.S. Hispanic population. Puerto Ricans in particular are an attractive subset of the U.S. Hispanic market with a purchasing power index of 110 as compared to other Hispanics. WAPA America is distributed by all major U.S. cable, satellite and telecommunication operators to 5.3 million subscribers. WAPA America televises approximately 70 hours in the aggregate per week of the top-rated news and entertainment programming produced by WAPA. WAPA America supplements its programming with acquired telenovelas and cultural programming, popular sports programming from Puerto Rico and other programming from WAPA's library.

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

**Cinelatino**

Cinelatino is the leading Spanish-language cable movie network with 20 million subscribers across the U.S., Latin America and Canada. Cinelatino is programmed with a lineup featuring what we believe to be the best contemporary films and original television series from Mexico, Latin America, the U.S. and Spain. Cinelatino was launched in Mexico in 1993, and introduced into the U.S. in 1995.

Our programming strategy for Cinelatino is specifically intended to provide the audience with the broadest selection of the most popular and highest-quality films across all popular genres, from Mexico and all other Latin American countries that have significant populations in the U.S., including Puerto Rico, the Dominican Republic, Colombia and Venezuela. Consistent with its programming strategy, Cinelatino has licensed the rights to many of the highest grossing box office films in Mexico each year from 2009 to 2016. Additionally, in 2014, we acquired a Spanish-language film library of 100 titles. This has provided us with substantial additional content, and will be a source of content for our channel as well as content available for us to license to over-the-top platforms. Cinelatino has an expansive library of over 600 of the best Spanish-language titles from suppliers across the globe. Driven by the strength

Table of Contents

of its programming and distribution, Cinelatino is the #2-Nielsen rated Spanish-language cable television network in the U.S. overall based on coverage ratings. In July 2015, Cinelatino introduced advertising on its network.

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

Cinelatino is also distributed by many Latin American pay television distributors, generally on basic video packages, and has 15.4 million subscribers in more than 15 countries throughout Latin America. Cinelatino is presently distributed to only 29% of all pay-TV subscribers throughout Latin America (excluding Brazil), representing a significant growth opportunity. Additionally, we have licensed movies on a limited basis to over-the-top digital services.

**Pasiones**

Pasiones, launched in August 2008, focuses on one of the most popular program genres among Hispanics, telenovelas. The network sets itself apart by showcasing telenovelas produced in Latin America, Turkey and South Korea (dubbed into Spanish), in contrast to most competitor networks, which focus exclusively on Mexican telenovelas. In owning both Pasiones and Cinelatino, we provide content in two of the most popular genres with Hispanics, telenovelas and movies.

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

Pasiones is also distributed by many Latin American pay television distributors, generally on basic video packages, and has 13.2 million subscribers in more than 15 countries throughout Latin America. Pasiones is presently distributed to only 25% of total pay-TV subscribers throughout Latin America (excluding Brazil), representing a significant growth opportunity.

**Centroamerica TV**

Centroamerica TV, launched in September 2004, is the leading network targeting the nearly 6 million Central Americans living in the U.S. Central Americans are the third largest U.S. Hispanic population group, and represent the fastest growing segment of the U.S. Hispanic population, having grown 273% from 2000-2016. Centroamerica TV features news and entertainment programming from leading television broadcast networks in El Salvador, Honduras, Costa Rica, Guatemala, and Panama, as well as exclusive soccer programming from the top professional leagues in the region.

Centroamerica TV has 4.1 million subscribers in the U.S. and is distributed on Hispanic Programming Packages. Hispanic pay-TV subscribers in the U.S. are expected to grow, driven by the long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

**Television Dominicana**

Television Dominicana, launched in November 2005, is the leading network targeting the 2.3 million Dominicans living in the U.S. Dominicans are the fourth largest U.S. Hispanic population

Table of Contents

group and have grown by 207% from 2000-2016. Television Dominicana features news and entertainment programming from leading content producers in the Dominican Republic, as well as exclusive rights to the Dominican Republic professional baseball league.

Television Dominicana currently has 3.2 million subscribers in the U.S. and is distributed on Hispanic Programming Packages. Hispanic pay-TV subscribers are expected to grow, driven by continued long-term growth in Hispanic television households and by increased penetration of pay-TV among Hispanics. We expect to capitalize on this strong growth. For more information, see "  Industry."

**Joint Ventures**

On November 3, 2016, we acquired a minority interest in a newly formed joint venture with Lionsgate to launch a Spanish-language over-the-top ("OTT") movie service (the "OTT JV"). The service plans to launch in the fiscal year ending December 31, 2017. The OTT JV had no activity from operations in the year ending December 31, 2016 and the Company did not make any capital contributions to the OTT JV in the fiscal year ending December 31, 2016.

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 Uno in Colombia (the "Canal Uno JV"). Canal Uno is one of only three national broadcast television licenses in Colombia. The Canal Uno JV is expected to begin operation of the network through a newly formed joint venture vehicle on May 1, 2017. For the year ending December 31, 2016, we accounted for the investment under the equity method. For more information on the OTT JV and Canal Uno JV, see Note 5, "Equity Method Investments" of Notes to Consolidated Financial Statements, included in this Annual Report on Form 10-K.

**OUR COMPETITION**

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

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

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

Table of Contents

WAPA competes with broadcast television networks and cable television networks in Puerto Rico for audience viewership, advertising sales, and programming. WAPA's main competitors are broadcast television stations owned by Univision and Telemundo, which rely heavily on their U.S. parents for programming, 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 programming and/or poor signal quality. WAPA 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 Spanish-speaking Puerto Rican audience. WAPA has effectively customized its programming for the viewing preferences of the Puerto Rican market with more local entertainment and news programming than its competitors, as well as blockbuster Hollywood movies and hit U.S. television series (dubbed into Spanish). As a result, WAPA has been the ratings leader for the past eight 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, including its mobile version, WAPA Movil compete with other news, weather and entertainment websites for development and acquisition of content, audience and advertising sales. To an extent, WAPA.TV and WAPA Movil also compete with U.S. search engines and social networks, such as Google, Facebook and Yahoo, for website traffic and advertising sales.

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

**INTELLECTUAL PROPERTY**

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

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

**INDUSTRY**

**U.S. Hispanic Market**

The U.S. Census Bureau estimated that 57 million Hispanics resided in the United States in 2015, representing an increase of more than 21 million people between 2000 and 2015. Hispanics represent the largest minority group in the U.S. at 18% of the total U.S. population and accounted for half of

Table of Contents

the total U.S. population growth between 2000 and 2015. This trend is expected to continue as the U.S. Hispanic population is projected to grow to 70 million by 2025, an increase of 24% from 2015. As a result of this growth, the U.S. Hispanic market represents the largest Hispanic economy in the world. In addition, the Hispanic population on average is significantly younger than the overall population. For example, the median age of U.S. Hispanics is 29, which is 15 years younger than the median age for non-Hispanic whites.

Geoscape estimates that in 2016 about 67% of the U.S. Hispanic population was of Mexican origin, followed by Puerto Rican, the second largest Hispanic national group, at over 9%. There are 5.5 million Puerto Ricans and an additional 5.4 million Hispanics from other Caribbean countries residing in the U.S., and together, Puerto Ricans and other Caribbean Hispanics represent more than 18% of the total U.S. Hispanic population. The Puerto Rican population in the U.S. grew 63% from 2000 to 2016, while the overall Caribbean Hispanic population grew 84% during the same time period, including the Dominican population which grew 207% from 2000-2016.

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

| **Place of Origin** | **Population 2016** | **% of U.S. Hispanics** |
|---|---|---|
| Puerto Rico | 5,548,525 | 9.3% |
| Dominican Republic | 2,350,679 | 3.9% |
| Cuba | 1,761,635 | 2.9% |
| Colombia | 1,009,973 | 1.7% |
| Venezuela | 299,134 | 0.5% |
| **Total Caribbean Hispanics** | **10,969,946** | **18.3%** |

Source: 2016 Geoscape

Central Americans are the third largest U.S. Hispanic regional population group in the U.S. (behind Mexicans and Caribbean Hispanics), and represent the fastest growing segment of the U.S. Hispanic population. There are 5.9 million Central Americans residing in the U.S., an increase of 273% since 2000. Central Americans comprised approximately 10% of the U.S. Hispanic population in 2016, compared to approximately 4% in 2000.

*Central American Hispanics (Centroamerica TV target audience)*

| **Place of Origin** | **Population 2016** | **% of U.S. Hispanics** |
|---|---|---|
| El Salvador | 2,574,086 | 4.3% |
| Guatemala | 1,594,378 | 2.7% |
| Honduras | 714,856 | 1.2% |
| Nicaragua | 423,020 | 0.7% |
| Panama | 363,588 | 0.6% |
| Costa Rica | 239,699 | 0.4% |
| **Total Central American Hispanics** | **5,909,627** | **9.9%** |

Source: 2016 Geoscape

Table of Contents

**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 34% during the period from 2007 to 2017, from 11.6 million households to 15.6 million households, over five times the overall U.S. television household growth of only 6%. The continued long-term growth of Hispanic television households creates a significant opportunity to reach an attractive audience at a time when overall household growth in the U.S. is more modest.

Growth in Hispanic pay-TV subscribers: Hispanic pay-TV subscribers are expected to 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 39% from 2007 to 2017, growing from 8.8 million to 12.2 million subscribers, over 13 times the 3% increase in overall U.S. pay-TV subscribers during the same period. This 39% growth also significantly over-indexes the 34% Hispanic television household growth during the same period.

**Television Viewing and Language Preferences**

Hispanics Enjoy Movies: In 2015, Hispanics made up 18% of the U.S. population, but accounted for 23% of movie ticket sales. In fact, the President of the National Association of Theater Owners described Hispanics as "the most valuable component of moviegoers."

Hispanics Prefer Television in Spanish: Spanish remains the most used language in the home by U.S. Hispanic adults, and this powerfully influences television viewing habits. According to Nielsen, 57% of Hispanics aged 18 and over speak Spanish as much as or more than English in their homes. Spanish-dominant or bilingual (Spanish/English Equal) homes comprise about 64% of U.S. Hispanic households, and these homes exhibit a strong preference to watch television in their native language. Spanish-dominant households view 56% of television in Spanish and bilingual homes view about 36% of television in Spanish.

**Hispanic Advertising Market**

Persons living in Hispanic television households represent over 17% of the total U.S. television household population and 10% of the total U.S. buying power, but the aggregate media spend targeted at U.S. Hispanics significantly under-indexes both of these metrics. As a result, advertisers have been allocating a higher proportion of marketing dollars to the Hispanic market, but U.S. Hispanic cable advertising still under-indexes relative to its consumption.

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 14% CAGR from 2009 to 2016, more than doubling from $204 million to $520 million. Going forward, U.S. Hispanic cable advertising is expected to continue to grow at an 11% CAGR from 2016 to 2019, outpacing forecasted growth for U.S. cable advertising, U.S. Hispanic broadcast advertising and U.S. general market broadcast advertising.

Similar to the under-indexing of U.S. general market cable advertising relative to viewing share in the 1980's and 1990's, U.S. Hispanic cable advertising today significantly under-indexes relative to its share of the Spanish-language television audience. In 2016, U.S. Hispanic cable networks garnered only 13% of total U.S. Hispanic television advertising, while accounting for a 23% share of total Spanish-language television viewing. Viewing of Spanish-language cable networks as a percentage of total Spanish-language television viewing has grown dramatically from 11% in 2007 to 23% in 2016.

Table of Contents

**Latin American Market (excluding Brazil)**

Latin America remains an attractive region due to its large population, shared language, strong economic growth and growing discretionary spending. Pay-TV subscribers in Latin America grew by 44% from 2012 to 2016, and are projected to grow an additional 15 million from 53 million in 2016 to 69 million by 2021 representing projected growth of over 28%. Pay-TV penetration of television households has expanded from 41% in 2012 to 55% in 2016 and is projected to reach 63% by 2021. This growth is expected to be driven by a sizeable and growing population, as well as a strong macroeconomic backdrop and rising disposable income across geographies. In addition, investments in network infrastructure have improved service and performance, leading to increased penetration for pay-TV operators.

**Puerto Rico Overview**

The Commonwealth of Puerto Rico is a U.S. territory and has a U.S. dollar-based economy, U.S. rule of law and strong governmental ties to the United States. The broadcast television industry in Puerto Rico is regulated by the FCC, and the banking system is regulated under the U.S. system (Federal Deposit Insurance Corporation). Puerto Rico has a population of approximately 3.5 million, with an additional 5.5 million Puerto Ricans living in the mainland U.S. All Puerto Ricans are U.S. citizens.

*Economy*

The Puerto Rican economy has been in a recession since 2006, burdened by limited economic activity, lower-than-estimated revenue collections, high government debt levels relative to the size of the economy and other fiscal challenges. Based on the most recent information available, the main economic indicators suggest that the Puerto Rico economy remains weak and there are no strong signs that a meaningful recovery is taking hold. For fiscal years 2016 and 2017, the Puerto Rico Planning Board projects a continued economic contraction in the Commonwealth's real gross national product ("GNP") of 1.2% and 2.0%, respectively, while the Government Development Bank of Puerto Rico's (the "GDB") economic activity index (the "GDB-EAI") in December 2016 decreased 3.0% on a year-over-year basis. The GDB-EAI is a coincident index of economic activity for Puerto Rico made up of four indicators (payroll employment, electric power generation, cement sales and gasoline consumption). The seasonally adjusted unemployment rate in Puerto Rico was 12.10% in December 2016.

Based on information published by the Puerto Rico Government, General Fund net revenues for fiscal year 2015-2016 totaled approximately $9.175 billion, a year-over-year increase of $214.4 million. Actual fiscal year revenues were $116.7 million below revised estimates. Preliminary General Fund net revenues for the first seven months of fiscal year 2016-2017 were $4.6 billion, an increase of $80.1 million when compared to the same period of fiscal year 2015-2016.

On April 6, 2016, the Puerto Rico governor signed the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, which gives Puerto Rico's governor emergency powers to deal with the challenging fiscal situation, including the ability to declare a moratorium on any debt payment. Puerto Rico's governor also issued an executive order intended to protect the GDB's liquidity by allowing withdrawals only to fund necessary costs for essential services such as health, public safety and education services.

On May, 1 2016, pursuant to the debt moratorium law, the Puerto Rico governor issued an executive order for the moratorium on the debt service payment due by the GDB on May 1, 2016. The GDB paid the scheduled interest payment of $22 million but defaulted on the principal payment of $367 million on its notes due on May 1, 2016.

Table of Contents

On June 30, 2016, President Obama signed HR 5278 Bill, the "Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which aims to establish an oversight board, a process for restructuring debt, and expedited procedures for approving critical infrastructure projects in order to address the Puerto Rican government fiscal situation. Among the main components of the bill are:

- The creation of an Oversight Board consisting of seven voting members, along with the Puerto Rico governor (or designee) who would serve as an ex-officio non-voting member. The Oversight Board is responsible, among other things, for approving fiscal plans and budgets as well as ensuring compliance with both. The Oversight Board also has the ability to facilitate debt restructuring negotiations.

- Provides a mechanism for debt restructuring. Before court supervised restructuring is permitted, the Oversight Board must certify that 1) any entity has made good faith efforts to reach a voluntary restructuring, 2) the entity has adopted procedures to deliver timely audited financial statements and has delivered drafts to any interested person to make an informed decision, 3) the entity has a fiscal plan in place, and 4) no restructuring for that entity's debt is already in place. The Oversight Board then has the exclusive authority as a last resort to initiate a proceeding in court.

- The Oversight Board will also be able to approve expedited permitting and regulatory processes for specific infrastructure revitalization projects. The projects must provide economic support, have access to private capital, and address a need in Puerto Rico's current infrastructure.

On August 31, 2016, the president of the United States named the seven voting members of the Oversight Board that will manage Puerto Rico's finances for at least five years as established by PROMESA. Also, on September 1, 2016, the Puerto Rico governor named the non-voting member who will serve as his representative on PROMESA's fiscal control board. In addition, on September 30, 2016, the Oversight Board listed the public entities to be placed under the Board's immediate oversight. The entities placed under immediate control consist of: Puerto Rico's central government, three retirement systems (teachers, judicial and employees), the University of Puerto Rico and all public corporations, including the Aqueduct and Sewer Authority, PREPA, the Puerto Rico Buildings Authority and the GDB.

As part of PROMESA, a Congressional Task Force on Economic Growth in Puerto Rico was created. This Task Force, consisting of eight members, provided a status report to Congress, which included but was not limited to:

- Impediments in current Federal law and programs to economic growth in Puerto Rico, including equitable access to Federal health care programs;

- Recommended changes to Federal law and programs that, if adopted, would serve to spur sustainable long-term economic growth and job creation, reduce child poverty, and attract investment in Puerto Rico; and

- The economic effect of Administrative Order No. 346 of the Department of Health of the Commonwealth of Puerto Rico (relating to natural products, natural supplements, and dietary supplements) or any successor or substantially similar order, rule, or guidance of the Commonwealth of Puerto Rico.

On June 30, 2016, pursuant to the debt moratorium law and, after the enactment of PROMESA, the Puerto Rico governor issued two executive orders that declare a moratorium on the payment obligations of the Commonwealth under its general obligation and guaranteed debt, implement various cash and liquidity preservation measures and protect the Commonwealth and its instrumentalities from the exercise of creditor remedies as the Commonwealth addresses its fiscal situation.

PROMESA is an important step towards reducing the level of uncertainty in Puerto Rico and provides a groundwork for an orderly debt restructuring process, however, ultimate outcomes of actions to address the challenging Puerto Rico economic environment are uncertain at this time. The economic outlook is expected to remain negative in 2017. There can be no assurance that any past or new actions taken by any governmental or regulatory body for the purpose of stabilizing the economy or financial markets will achieve their intended effect.

*Puerto Rico Broadcast Television Market*

Puerto Rico has 1.3 million television households, comparable to that of a top 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, Univision and Telemundo  collectively garner approximately 69% of all television household viewership in primetime, distinguishing Puerto Rico from the U.S. television market, where the four major national broadcast networks (ABC, CBS, NBC and Fox) garner a collective primetime audience share of less than 30%. In fact, WAPA's primetime household rating in 2016 was nearly four times higher than the most highly rated English-language U.S. broadcast network in the U.S., CBS, and higher than the combined ratings of CBS, NBC, ABC, FOX and the CW.

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

The following is a brief summary of certain provisions of the Communications Act, and specific FCC rules and policies and certain other statutes and regulations. The summaries are not intended to

Table of Contents

describe all present and proposed statutes and FCC rules and regulations that impact broadcast television and cable network operations. Failure to observe the provisions of the Communications Act and the FCC's rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of "short-term" (less than the maximum term) broadcast license renewals or, for particularly egregious violations, the denial of a broadcast license renewal application, the revocation of a broadcast license, or the withholding of approval for acquisition of additional broadcast properties.

*FCC Licenses and Renewal*

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

*Media Ownership Restrictions and FCC Proceedings*

The FCC's broadcast ownership rules affect the number, type and location of broadcast and newspaper properties that we are allowed to hold or acquire. The rules now in effect limit the common ownership, directly or by way of 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. 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.

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 August 2016, the FCC issued an order keeping most of the current ownership rules in place, finding that they continued to serve the public interest. The new rules do, however, prohibit joint sales agreements between stations that cannot be commonly owned. In a separate order, the FCC eliminated the 50% discount that was previously given to UHF stations in determining compliance with the national audience cap. Several parties have challenged the ownership rules and the elimination of the UHF discount. Those challenges remain pending.

*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. Broadcast stations designated by the FCC as "satellite" stations are exempt from the local television ownership rule. WNJX-TV and WTIN-TV have been designated by the FCC as "satellite" stations of WAPA-TV, a division of WAPA. The FCC may also waive its local television ownership rule to permit ownership, operation or control of two television stations in a market that would not otherwise be permissible if one of the stations is in involuntary bankruptcy, is a "failed" station, or is "failing" (i.e., stations with negative cash flow and less than a four share all day audience rating). Under the local television ownership rule, the licensee of a television station that provides more than 15% of another in-market station's weekly programming or advertising will be deemed to have an attributable interest in the other station.

*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 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 and television 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. However, the FCC now requires that television stations make any shared services agreements available in a station's public inspection file.

*Commission Approval of Transfer of Control of FCC Licenses*

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

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

*Alien Ownership Restrictions*

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

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

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

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

*Digital Television*

As of June 12, 2009, all full-power broadcast television stations were required to cease broadcasting analog programming and convert to all digital broadcasts. Digital broadcasting allows stations to offer digital channels for a wide variety of services such as high definition video programming, multiple channels of standard definition video programming, such as 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 2014 for the 2015-2017 three-year period. WAPA elected retransmission consent and has entered into retransmission consent contracts with all MVPD systems serving Puerto Rico.

MVPDs are not required to carry any programming streams other than a station's primary video programming channel. Consequently, WAPA's multicast channel 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 2014, the FCC adopted rules prohibiting a television broadcast station that is ranked among the top four stations to negotiate retransmission consent jointly with another station, if the stations are not commonly owned and serve the same geographic market. In December 2014, the FCC issued a NPRM requesting comment on whether the definition of MVPD should be expanded to include providers that make multiple linear streams of video programming available for purchase, regardless of the technology used to distribute the programming (e.g. entities providing video programming to subscribers through internet connections). This proceeding remains pending, and we cannot predict what impact, if any, it will have on our negotiations with video programming distributors.

*Repurposing of Broadcast Spectrum for Other Uses*

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

The FCC has adopted rules concerning the incentive auction and the repacking of the television band and has commenced the auction process. Under the auction rules implemented by the FCC, television stations were given an opportunity to offer spectrum for sale to the government in a "reverse" auction whereafter wireless providers were permitted to bid to acquire spectrum from the government in a related "forward" auction. We filed an application to participate in the reverse auction. However, because the price to sell our spectrum fell below the value we ascribe to it, we did not sell any of our spectrum in the auction. Following completion of the incentive auction, which is expected in the first half of 2017, 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 will reimburse stations for reasonable relocation costs up to a total across all stations of $1.75 billion. When repacking, the FCC will 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's broadcast licenses operate, to the VHF band or from the high VHF band to the low VHF band. The FCC has notified us that stations WNJX-TV and WTIN-TV have been reassigned new channels as a result of the incentive auction. Once the auction concludes, we will be required to transition WNJX-TV and WTIN-TV to their post-auction channels.

The outcome of the incentive auction and repacking of broadcast television spectrum, or the impact of such items on WAPA'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.

Table of Contents

*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, shared services agreements and statements of must-carry/retransmission elections. The FCC has adopted rules, which are not yet effective, to eliminate the requirement that stations maintain correspondence from the public in a station's public inspection file.

*Broadcast Localism*

In 2007, the FCC issued a Report on Broadcast Localism and Notice of Proposed Rulemaking (the "Localism Report"). The Localism Report tentatively concluded that broadcast stations should be required to have regular meetings with permanent local advisory boards to ascertain the needs and interests of their communities. The Localism Report also tentatively adopted specific renewal application processing guidelines that would require broadcasters to air a minimum amount of local programming. The Localism Report sought public comment on two additional rule changes that would impact television broadcasters. These rule changes would restrict a broadcaster's ability to locate a station's main studio outside the community of license and the right to operate a station remotely. To date, the FCC has not issued a decision adopting rules to implement any of the initiatives in the Localism Report, and it cannot be predicted whether or when the FCC might act to codify any such initiatives.

*Programming and Operations*

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

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

In 2016, the FCC implemented increased forfeiture amounts for indecency violations that were enacted by Congress. The maximum permitted fine for an indecency violation is $389,305 per incident and $3,593,585 for any continuing violation arising from a single act or failure to act.

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

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

Federal statutes and FCC rules also limit the amount and content of commercial matter that may be included in programming primarily produced and carried for children 12 years and younger by broadcast television stations and cable networks, including WAPA America and Cinelatino. The FCC's rules also limit the display, during children's programming on broadcast stations and cable networks, of Internet addresses of websites that contain or link to commercial material or that use program characters to sell products. In October 2009, the FCC issued a Notice of Inquiry ("Children's NOI") seeking comment on a broad range of issues related to children's usage of electronic media and the current regulatory landscape that governs the availability of electronic media to children. The Children's NOI remains pending, and it cannot be predicted what recommendations or further action, if any, will result from it.

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

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

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

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

*Program Access Restrictions*

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

*Regulation of the Internet*

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

*Other Regulations*

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

**AVAILABLE INFORMATION**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are made available free of charge on or through our website at *www.hemispheretv.com* as soon as reasonably practicable after such reports are

Table of Contents

filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"). The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the Commission.

You may read and copy any materials we file with the Commission at the Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website that contains our reports, proxy statements and other information at *www.sec.gov*. In addition, copies of our Corporate Governance Guidelines, Audit Committee Charter and Code of Business Conduct and Ethics, are available at our website at *www.hemispheretv.com* under "Investor Relations  Corporate Governance." Copies will also be provided to any Hemisphere stockholder upon written request to Investor Relations, Hemisphere Media Group, Inc. at 4000 Ponce de Leon Blvd., Suite 650, Coral Gables, FL, 33146, or via electronic mail at *ir@hemispheretv.com,* or by contacting Investor Relations by telephone at (212) 486-9500.

## Item 1A.    Risk Factors.

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

### Risk Factors Related to our Business

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

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

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

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

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

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

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

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

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

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

The growth of our Networks' subscriber base depends upon many factors, such as overall growth in cable, satellite and telco subscribers, the popularity of our Networks' programming, our ability to negotiate new carriage agreements, or amendments to, or renewals of, current carriage agreements, maintenance of existing distribution, and the success of our marketing efforts in driving consumer demand for their content, as well as other factors that are beyond our control.

A major component of our financial growth strategy is based on our ability to increase our Cable Networks' subscriber base. If our Cable Networks' programming services are required by the FCC to be offered on an "à la carte" basis, our Cable Networks could experience higher costs, reduced distribution of our program service, perhaps significantly, and lose viewers. There can be no assurance that we will be able to maintain or increase our Cable Networks' subscriber base on cable, satellite and telco systems or that our current carriage will not decrease as a result of a number of factors or that we will be able to maintain or increase our Cable Networks' current subscriber fee rates.

In particular, negotiations for new carriage agreements, or amendments to, or renewals of, current carriage agreements, are lengthy and complex, and our Networks are not able to predict with any accuracy when such increases in our subscriber bases may occur, if at all, or if we can maintain or increase our current subscriber fee or retransmission fee rates, as applicable. If our Networks are unable to grow our subscriber bases or if we reduce our subscriber fee or retransmission fee rates, as applicable, our revenues may not increase and could decrease.

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

We believe one of our growth drivers will result from projected increases in the U.S. Hispanic population and projected increases in their buying power. Factors that impact the U.S. Hispanic population, including a slow-down in immigration into the U.S. in the future, the impact of federal and state immigration legislation and policies on both the U.S. Hispanic population and persons emigrating from Latin America could affect the growth of the U.S. Hispanic population and, as a result, the demand for our programming. Current events, including the recent U.S. presidential election, have highlighted the potential for certain major changes in U.S. immigration policies. For example, in 2017, a series of executive orders temporarily banning travel to the U.S. from several countries in the Middle East and Africa were signed into order. In 2017, the Department of Homeland Security issued several guidance memos that expand the federal government's ability to empower state and local law enforcement agencies to perform the functions of immigration officers and provide federal immigration agents wide latitude to arrest, detain and deport undocumented immigrants and legal immigrants with criminal records, which may disproportionally affect immigrants from Latin America. If additional executive orders are signed into law, federal immigration legislation is enacted, individual states enact immigration laws or immigration policy further shifts, such laws and regulations promulgated thereunder may contain provisions that lead to a slowdown of projected immigration levels in the U.S. Hispanic population. If the U.S. Hispanic population grows more slowly than anticipated, the projected buying power of the U.S. Hispanic population may not grow as anticipated. In addition, economic conditions, such as unemployment, that disproportionately impact the U.S. Hispanic population could slow the growth of, or reduce, the projected buying power of U.S. Hispanics. If the U.S. Hispanic population or its buying power grows more slowly than anticipated, it could have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

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

***The television markets in which our Networks operate is highly competitive, and we may not be able to compete effectively, particularly against competitors with greater financial resources, brand recognition, marketplace presence and relationships with service providers.***

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

Technology in the video, telecommunications and data services industry is changing rapidly. Consumer behavior related to changes in content distribution and technological innovation affect our economic model and viewership in ways that are not entirely predictable. Consumers are increasingly viewing content on a time-delayed or on-demand basis from traditional distributors and from connected apps and websites and on a wide variety of screens, such as televisions, tablets, mobile phones and other devices. Additionally, devices that allow users to view television programs on a time-shifted basis and technologies that enable users to fast-forward or skip programming, including commercials, such as DVRs and portable digital devices and systems that enable users to store or make portable copies of content may affect the attractiveness of our offerings to advertisers and could therefore adversely affect our revenues. There is increased demand for short-form, user-generated and interactive content, which have different economic models than our traditional content offerings. Digital downloads, rights lockers, rentals and subscription services are competing for consumer preferences with each other and with traditional physical distribution of our content. Each distribution model has different risks and economic consequences for us, so the rapid evolution of consumer preferences may have an economic impact that is not completely predictable. Distribution windows are also evolving, potentially affecting revenues from other windows. We may be required to incur substantial capital expenditures to implement new technologies, or, if we fail to do so, may face significant new challenges due to technological advances adopted by competitors, which in turn could result in harm to our Business and operating results. Additionally, the development of new methods of content distribution could dilute our Networks' market share and lead to increased competition for viewers. If we cannot ensure that our distribution methods and content are responsive to our target audiences, our Business could be adversely affected.

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

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

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

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

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

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

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

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

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

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

WAPA depends upon maintaining its broadcast licenses, which are issued by the FCC for a term of eight years and are renewable. Applications to renew the broadcast licenses of all television stations licensed to communities in Puerto Rico, including those associated with WAPA-TV, were renewed in 2013. In the future, interested parties may challenge a renewal application. The FCC has the authority to revoke licenses, not renew them, or renew them with conditions, including renewals for less than a full term. It cannot be assured that our license renewal applications for WAPA in the future will be approved, or that the renewals, if granted, will not include conditions or qualifications that could adversely affect our operations. If WAPA's licenses are not renewed in the future, or renewed with substantial conditions or modifications (including renewing one or more of our licenses for a term of fewer than eight years), it could prevent us from operating WAPA and generating revenue from it.

Furthermore, WAPA's ability to successfully negotiate and renegotiate future retransmission consent agreements may be hindered by potential legislative or regulatory changes to the framework under which these agreements are negotiated. In March 2011, the FCC issued a Notice of Proposed Rulemaking to consider changes to its rules governing the negotiation of retransmission consent agreements. The FCC concluded that it lacked statutory authority to impose mandatory arbitration or interim carriage obligations in the event of a dispute between broadcasters and pay television operators. The FCC, however, sought comment on whether it should (1) strengthen existing regulatory provisions requiring broadcasters and MVPDs to negotiate retransmission consent in "good faith," (2) enhance notice obligations to consumers of potential disruptions in service, and/or (3) extend the prohibition on ceasing carriage of a broadcast station's signal during an audience measurement period to Direct broadcast satellite ("DBS") systems.

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

If we or any of our officers, directors, or attributable interest holders materially violate the FCC's rules and regulations or are convicted of a felony or are found to have engaged in unlawful anticompetitive conduct or fraud upon another government agency, the FCC may, in response to a petition by a third party or on its own initiative, in its discretion, commence a proceeding to impose sanctions upon us that could involve the imposition of monetary penalties, the denial of a license renewal application, revocation of a broadcast license or other sanctions. In addition, the FCC has recently emphasized more vigorous enforcement of certain of its regulations, including indecency standards, sponsorship identification requirements, children's programming requirements, public file requirements, which impact broadcasters, and also rules that relate to the emergency alert system and closed captioning, and equal employment opportunity outreach and recordkeeping requirements, which impact MVPDs. For example, in 2016, the statutory maximum fine for broadcasting indecent material increased from $325,000 to $389,305 per incident. In 2014, the FCC issued fines against three cable network owners, with the fines ranging from $280,000 to $1,120,000, for violating FCC rules relating to the emergency alert system. These enhanced enforcement efforts could result in increased costs associated with the adoption and implementation of stricter compliance procedures at our Business facilities or FCC fines. Additionally, the effect of recent judicial decisions regarding the FCC's indecency enforcement practices remain unclear and we are unable to predict the impact of these decisions on the FCC's enforcement practices, which could have a material adverse effect on our Business.

Table of Contents

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

The multichannel video programming distribution industry is subject to extensive legislation and regulation at the federal level, and many aspects of such regulation are currently the subject of judicial proceedings and administrative or legislative proposals. Operating in a regulated industry increases our cost of doing business as video programmers, and such regulation may also hinder our ability to increase and/or maintain our revenues. The regulation of programming services is subject to the political process and continues to be under evaluation and subject to change. Material changes in the law and regulatory requirements are difficult to anticipate and our Business may be harmed by future legislation, new regulation, deregulation and/or court decisions interpreting such laws and regulations.

The following are examples of the types of currently active legislative, regulatory and judicial inquiries and proceedings that may impact our Cable Networks. The FCC may adopt rules which would require cable and satellite providers to make available programming channels on an a la carte basis. A major component of our financial growth strategy is based on our ability to increase our Cable Networks' subscriber base. If our Cable Networks' programming services are required by the FCC to be offered on an "a la carte" basis, our Cable Networks could experience higher costs, reduced distribution of our program service, perhaps significantly, and lose viewers. There can be no assurance that we will be able to maintain or increase our Cable Networks' subscriber base on cable, satellite and telco systems or that our current carriage will not decrease as a result of a number of factors or that we will be able to maintain or increase our Cable Networks' current subscriber fee rates.

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

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

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

***Cable, satellite and telco television programming signals have been stolen or could be stolen in the future, which reduces our potential revenue from subscriber fees and advertising.***

The delivery of subscription programming requires the use of conditional access technology to limit access to programming to only those who subscribe to programming and are authorized to view it. Conditional access systems use, among other things, encryption technology to protect the transmitted signal from unauthorized access. It is illegal to create, sell or otherwise distribute software or devices to circumvent conditional access technologies. However, theft of programming has been widely reported, and the access or "smart" cards used in service providers' conditional access systems have been compromised and could be further compromised in the future. When conditional access systems are compromised, our Networks do not receive the potential subscriber fee revenues from the service providers. Further, measures that could be taken by service providers to limit such theft are not under our control. While we take proactive steps to combat piracy through the encryption of our signal and other measures, there can be no assurances that these or other steps are effective. Piracy of our Networks' copyrighted materials could reduce our revenue and negatively affect our Business and operating results.

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

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

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

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

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

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

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

Additionally, Puerto Rico's track record of poor budget controls and high poverty levels compared to the U.S. average presents ongoing challenges. Puerto Rico's government is facing a poor fiscal condition, high unemployment rate and extremely low labor force participation. Indeed, increasing economic problems in Puerto Rico have led to high-levels of migration from the territory, although the outflows decelerated in the year ending December 31, 2016, as compared to December 31, 2015. The continued loss of school-age children and those in their prime working years has contributed to Puerto Rico's lowered growth prospects going forward.

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

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

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

- exposure to local economic conditions;
- potential adverse changes in the diplomatic relations of foreign countries with the United States;
- hostility from local populations;
- significant fluctuations in foreign currency value;
- the adverse effect of currency exchange controls or other restrictions;
- restrictions on the withdrawal of foreign investment and earnings;
- government policies against businesses owned by foreigners;
- investment restrictions or requirements;
- expropriations of property;
- the potential instability of foreign governments and economies;
- the risk of insurrections;
- difficulties in collecting revenues and seeking recourse against 3rd parties owing payments to us;
- withholding and other taxes on remittances and other payments by subsidiaries;
- changes in taxation structure; and
- shifting consumer preferences regarding the viewing of video programming.

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