

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**

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FILER

TV FILME INC

CIK: **1013608** | IRS No.: **980160214**

Type: **10-Q** | Act: **34** | File No.: **001-11951** | Film No.: **96665115**

SIC: **4841** Cable & other pay television services

Mailing Address

SCS QUADRA 07-B1A

ED EXECUTIVE TOWER SALA 601

BRASILIA DF D5

Business Address

SCS QUADRA 07-B1A

ED EXEC TOWER SALA 601

BRASILIA DF 70.300-9 D5

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1996

OR

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

For the transition period from _____ to _____

TV FILME, INC.
(Exact name of Registrant as Specified in its Charter)

COMMISSION FILE NUMBER : 0-28670

DELAWARE 98-0160214
(State or Other Jurisdiction (I.R.S. Employer Identification No.)
of Incorporation or Organization)

C/O ITSA-INTERCONTINENTAL TELECOMUNICACOES LTDA.
SCS, QUADRA 07-B1.A
ED. EXECUTIVE TOWER
SALA 601
70.300-911 BRASILIA-DF
BRAZIL
(Address, Including Zip Code, of Principal Executive Offices)

011-55-61-314-9908
(Registrant's Telephone Number, Including Area Code)

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. [x] Yes [] No

Indicate the number of shares outstanding of each of the issuer's
classes of Common Stock, as of the latest practicable date.

CLASS	OUTSTANDING
-----	-----
Common Stock, par value \$.01 per share.	10,166,176 shares as of November 11, 1996.

TV FILME, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TV FILME, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1995 -----	SEPTEMBER 30, 1996 -----
	(UNAUDITED)	
	(IN THOUSANDS OF U.S. DOLLARS)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43	\$ 19,618
Accounts receivable, net	1,781	3,378
Supplies	1,632	2,983
Prepays and other current assets	497	824
	-----	-----
Total current assets	3,953	26,803
Property, plant and equipment, net	18,870	32,423
Other assets	860	1,043
	-----	-----
Total assets	\$ 23,683	\$ 60,269
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,876	\$ 8,752
Short-term debt	--	1,322
Payroll and other benefits payable	1,283	2,056
Accrued liabilities and other taxes payable	161	968
Payables to affiliates -- current	1,863	200
	-----	-----
Total current liabilities	10,183	13,298
Payables to affiliates -- long term	400	200
Deferred installation fees	5,205	8,132
Stockholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares issued	--	--
Common stock, \$.01 par value, 50,000,000 shares authorized, 6,193,996 and 10,166,176 shares		

issued and outstanding	62	102
Additional paid-in capital	10,070	41,553
Accumulated deficit	(2,237)	(3,016)
	-----	-----
Total stockholders' equity	7,895	38,639
	-----	-----
Total liabilities and stockholders' equity	\$ 23,683	\$ 60,269
	=====	=====

See accompanying notes.

TV FILME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
	-----	-----	-----	-----
	(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AND SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 3,222	\$ 8,654	\$ 6,735	\$ 21,287
Operating costs and expenses:				
System operating--Note 2	732	2,676	1,789	6,092
Selling, general and administrative	2,415	4,421	5,815	11,615
Depreciation and amortization	598	1,572	1,196	3,996
	-----	-----	-----	-----
Total operating costs and expenses	3,745	8,669	8,800	21,703
	-----	-----	-----	-----
Operating loss	(523)	(15)	(2,065)	(416)
Other income (expense):				
Interest income (expense), net--Note 2	8	115	338	(307)
Other expense--Note 2	--	(34)	--	(23)
Exchange and translation losses	(17)	(143)	(80)	(101)
	-----	-----	-----	-----
Net loss	\$ (532)	\$ (77)	\$ (1,807)	\$ (847)
	=====	=====	=====	=====
Net loss per share	\$ (0.07)	\$ (0.01)	\$ (0.22)	\$ (0.10)
	=====	=====	=====	=====
Weighted average number of common stock and common stock equivalents outstanding	8,086	9,868	8,086	8,680
	=====	=====	=====	=====

</TABLE>

See accompanying notes.

TV FILME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996

<TABLE>

<CAPTION>

	COMMON STOCK		Additional Paid-in Capital	Accumulated Deficit	Total
	SHARES	PAR VALUE			
	(IN THOUSANDS OF U.S. DOLLARS, EXCEPT SHARES)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1995	6,193,996	\$ 62	\$ 10,070	\$ (2,237)	\$ 7,895
Issuance of common stock and warrants	1,097,180	11	7,140	--	7,151
Initial public offering of common stock, net of costs	2,875,000	29	24,343	--	24,372
Equity adjustment from restructuring	--	--	--	68	68
Net loss for the period	--	--	--	(847)	(847)
BALANCE AT SEPTEMBER 30, 1996	10,166,176	\$ 102	\$ 41,553	\$ (3,016)	\$ 38,639

</TABLE>

See accompanying notes.

TV FILME, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996
	-----	-----
	(IN THOUSANDS OF U.S. DOLLARS)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,807)	\$ (847)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,196	3,996
Non-cash compensation	312	--
Increase in deferred installation fees	2,773	2,927
Changes in operating assets and liabilities:		
Increase in accounts receivable	(799)	(1,597)
Increase in supplies	(962)	(1,351)
Increase in prepaids and other current assets	(89)	(327)
Decrease (increase) in other assets	9	(183)
Increase in accounts payable	3,666	1,876
Increase in payroll and other benefits payable	920	773
Increase in accrued liabilities and other taxes payable	213	807
	-----	-----
Net cash provided by operating activities	5,432	6,074
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions:		
Property, plant and equipment	(10,866)	(17,481)
	-----	-----
Net cash used in investing activities	(10,866)	(17,481)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term debt	--	1,322
Proceeds from initial public offering, net of costs	--	24,372
Issuance of common stock and warrants	3,300	7,151
Decrease in payables to affiliates	(200)	(1,863)
Decrease in receivables from affiliates ..	764	--
	-----	-----
Net cash provided by financing activities	3,864	30,982
	-----	-----
Net change in cash and cash equivalents	(1,570)	19,575
Cash and cash equivalents at beginning of period	1,659	43
	-----	-----
Cash and cash equivalents at end of period	\$ 89	\$ 19,618
	=====	=====

See accompanying notes.

TV FILME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. COMPANY BACKGROUND

In connection with an initial public offering of its Common Stock which was consummated on August 2, 1996 (the "Offering"), TV Filme, Inc. (the "Company") was formed in April 1996 to become the holding company of and successor to ITSA-Intercontinental Telecomunicacoes S.A. and its subsidiaries ("ITSA"). The transfer of ITSA to the Company has been accounted for in a manner similar to a pooling of interests. ITSA was formed in May 1994 as a holding company for and successor to TV Filme Servicos de Telecomunicacoes S.A. ("TVFSA"). The transfer of TVFSA to ITSA has been accounted for in a manner similar to a pooling of interests.

In connection with the Offering, the Company entered into a Restructuring (the "Restructuring") pursuant to which, immediately prior to the Offering, all of the preferred stock of ITSA was converted into common stock of ITSA, based on the conversion rates at the date of issuance of the preferred stock. Each share of common stock of ITSA was exchanged for 1,844 shares of Common Stock of the Company. As all of the preferred stock of ITSA has been converted and there were no preferred dividends paid or due as a result of the conversion, all preferred and common stock issuances of the predecessor companies have been reflected as issuances of Common Stock of the Company. Prior to the consummation of the Offering and the Restructuring, TVFSA operated the Company's wireless cable system in Brasilia, and held the licenses to operate the Company's wireless cable systems in Brasilia, Goiania and Belem. ITSA owned substantially all of TVFSA, TV Filme Goiania Servicos de Telecomunicacoes Ltda. ("TV Filme Goiania") and TV Filme Belem Servicos de Telecomunicacoes Ltda. ("TV Filme Belem").

Pursuant to the Restructuring, (i) 51% of the voting stock of TVFSA was transferred to an entity, all of which is owned by certain existing shareholders of ITSA who are Brazilian nationals, with ITSA retaining 49% of the voting stock and 83% of the economic interests in TVFSA; (ii) the operating assets of the wireless cable system of Brasilia were transferred from TVFSA to TV Filme Brasilia Servicos de Telecomunicacoes Ltda. ("TV Filme Brasilia"), which is substantially owned by ITSA; and (iii) TVFSA entered into various agreements with ITSA and its subsidiaries pursuant to which, among other things, TVFSA has authorized ITSA to operate the existing wireless cable systems under its current licenses. As a result of the Restructuring and the Offering, the Company owns 100% of ITSA, which holds 49% of the voting stock and 83% of the economic interests of TVFSA and 100% of TV Filme Brasilia, TV Filme Goiania and TV Filme Belem.

Accordingly, the consolidated financial statements of the Company include ITSA and its subsidiaries on a historical basis since May 1994 as though they have been part of the Company for all periods presented. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company develops, owns and operates subscription television systems in mid-sized markets in Brazil. The Company has established wireless cable operating systems in the cities of Brasilia, Goiania and Belem.

TV FILME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

B. METHOD OF PRESENTATION

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the

United States in U.S. dollars. Amounts in Brazilian currency have been remeasured into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52 as it applies to entities operating in highly inflationary economies. Supplies, property, plant and equipment, intangibles and deferred installation fees and the related income statement accounts are remeasured at exchange rates in effect when the assets were acquired or the liabilities were incurred. All other assets and liabilities are remeasured at year end exchange rates, and all other income and expense items are remeasured at average exchange rates prevailing during the year. Remeasurement adjustments are included in exchange and translation losses.

In management's opinion, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the first nine months are not necessarily indicative of the results that may be expected for a full year.

C. NET LOSS PER SHARE

Net loss per share is calculated using the weighted average number of shares of stock outstanding during the period together with the number of shares issuable upon the exercise of options and warrants issued during the twelve months prior to the filing of the Offering. The computation of fully diluted pro forma net loss per share of common stock was antidilutive; therefore, the amounts reported for primary and fully diluted loss per share are the same.

2. RELATED PARTY TRANSACTIONS

Substantially all programming is supplied by a subsidiary of Tevecap S.A. ("Tevecap"), a stockholder of the Company, pursuant to a programming contract. Amounts paid to such affiliate for the three and nine months ended September 30, 1995 and 1996 were \$363,000 and \$764,000 and \$1,922,000 and \$4,468,000, respectively.

Receivables in 1995 from Tevecap and Abril S.A. ("Abril"), the majority shareholder of Tevecap, bear interest at the Brazilian interbank rate ("CDI") then in effect plus 0.8%. The rate in effect during the periods ranged from 3.24% to 4.41% per month during 1995. Interest income from such affiliates was \$339,000 for the nine months ended September 30, 1995.

Included in payables to affiliates at September 30, 1996 is a \$400,000 payable to Abril which does not bear interest. Payments on this payable are required at the rate of \$200,000 per year. Other payables to Tevecap bear interest at the CDI plus 0.8%, which ranged from 2.18% to 3.36% per month during the first nine months of 1996; these payables were paid in full during the three months ended September 30, 1996. Interest expense paid to Tevecap was \$476,000 for the nine months ended September 30, 1996 compared to \$23,000 for the nine months ended September 30, 1995.

TV FILME, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

The Company purchases equipment and supplies from vendors under irrevocable letters of credit. Abril and a subsidiary of Tevecap guarantee such obligations from time to time. Total issued and outstanding letters of credit at September 30, 1996 were \$7,524,000. At September 30, 1996, issued and outstanding letters of credit secured by affiliates were \$4,732,000. Of this amount, \$1,322,000 is classified as short-term debt. The maturity date of such letters of credit range from 30 days to 360 days.

Immediately prior to the consummation of the Offering, in connection with the Restructuring, the Company issued 3,962,756, 1,456,760, 254,472, 254,472 and 1,069,520 shares of Common Stock to Warburg, Pincus Investors, L.P. ("Warburg, Pincus"), Tevecap, Mr. Hermano Studart Lins de Albuquerque, Mr. Carlos Andre Studart Lins de Albuquerque and Mrs. Maria Nise Studart Lins de Albuquerque, respectively, with a value at the initial public offering price of \$10.00 per share of \$39,627,560, \$14,567,600, \$2,544,720, \$2,544,720 and \$10,695,200, respectively. Such shares were issued in exchange for all of their shares of common stock of ITSA, which have the same value as the shares of Common Stock received in the exchange.

Immediately prior to the consummation of the Offering, in connection with the Restructuring, the Company issued warrants to purchase 567,952 shares of Common Stock to Warburg, Pincus, warrants to purchase 208,372

shares of Common Stock to Tevecap and warrants to purchase 18,440 shares of Common Stock to two other shareholders of the Company in exchange for all of their warrants to purchase shares of common stock of ITSA.

3. STOCK OPTION PLAN

In connection with the Offering, the Board of Directors of the Company adopted and the stockholders of the Company approved the 1996 Stock Option Plan (the "Plan"). The Plan provides for the grant of stock options to officers, key employees, consultants and directors of the Company. The Plan is administered by the Compensation Committee and the total number of shares of Common Stock for which options may be granted pursuant to the Plan is 936,432, subject to certain adjustments reflecting changes in the Company's capitalization. The Plan allows the granting of incentive stock options, which may not have an exercise price below the greater of par value or the market value on the date of grant, and non-qualified stock options, which have no restrictions as to exercise price other than the exercise price cannot be below par value. All options must be exercised no later than 10 years from the date of grant. Options to purchase 407,000 shares of Common Stock were granted upon the consummation of the Offering, 297,000 of which are exercisable at \$10.00 per share, and 110,000 of which are exercisable at \$11.00 per share, and which generally vest 20% per year for five years beginning on the first anniversary of consummation of the Offering.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WHICH INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, INCLUDED ELSEWHERE IN THIS FORM 10-Q.

RESULTS OF OPERATIONS

Although the Company's financial statements are presented pursuant to United States generally accepted accounting principles in U.S. dollars, the Company's transactions are consummated in both reais and U.S. dollars. Inflation and devaluation in Brazil have had, and may continue to have, substantial effects on the Company's results of operations and financial condition. The Company does not seek to hedge currency risks in the financial markets or otherwise. See "---Inflation and Exchange Rates."

As a result of the development of the Company's business and system launches during the periods presented, the period-to-period comparisons of the Company's results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance.

<TABLE>

<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
	(IN THOUSANDS OF U.S. DOLLARS, EXCEPT SHARE AND OTHER DATA)			
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 3,222	\$ 8,654	\$ 6,735	\$ 21,287
Operating costs and expenses:				
System operating	732	2,676	1,789	6,092
Selling, general and administrative	2,415	4,421	5,815	11,615
Depreciation and amortization	598	1,572	1,196	3,996
Total operating costs and expenses	3,745	8,669	8,800	21,703
Operating loss	(523)	(15)	(2,065)	(416)
Other income (expense):				
Interest income (expense), net	8	115	338	(307)
Other expense	--	(34)	--	(23)
Exchange and translation losses	(17)	(143)	(80)	(101)
Net loss	\$ (532)	\$ (77)	\$ (1,807)	\$ (847)
Net loss per share	\$ (0.07)	\$ (0.01)	\$ (0.22)	\$ (0.10)
Weighted average number of common stock and common stock equivalents outstanding	8,086	9,868	8,086	8,680

Other Data:	=====	=====	=====	=====
EBITDA(a)	\$ 388	\$ 1,557	\$ (556)	\$ 3,580
Number of subscribers at end of period	27,024	70,591	27,024	70,591

</TABLE>

(a) EBITDA is defined as operating income (loss) plus depreciation, amortization and non-cash compensation. While EBITDA should not be construed as a substitute for operating income (loss) or a better measure of liquidity than cash flow from operating activities, which are determined in accordance with United States GAAP, it is included herein to provide additional information regarding the ability of the Company to meet its capital expenditures, working capital requirements and any future debt service. EBITDA, however, is not necessarily a measure of the Company's ability to fund its cash needs, because it does not include capital expenditures, which the Company expects to continue to be significant.

REVENUES. The Company's revenues primarily consist of monthly fees paid by subscribers for the programming package, as well as installation fees recognized for the period. Revenues increased from approximately \$3.2 million for the three months ended September 30, 1995 to approximately \$8.7 million for the three months ended September 30, 1996 and increased from approximately \$6.7 million for the nine months ended September 30, 1995 to approximately \$21.0 million for the nine months ended September 30, 1996, primarily due to an aggregate increase of 41,797 and 36,260, respectively, in the average number of subscribers in the Company's operating systems. Average monthly revenue per subscriber was \$39.12 and \$39.76, respectively, for the three and nine months ended September 30, 1996 compared to \$40.41 and \$39.70, respectively, for the three and nine months ended September 30, 1995.

SYSTEM OPERATING EXPENSES. System operating expenses include programming costs, a portion of costs of compensation and benefits for the Company's employees, vehicle rental costs, transmitter site rentals, repair and maintenance expenditures and service call costs. System operating expenses increased from approximately \$0.7 million for the three months ended September 30, 1995 to approximately \$2.7 million for the three months ended September 30, 1996 and increased from approximately \$1.8 million for the nine months ended September 30, 1995 to approximately \$6.1 million for the nine months ended September 30, 1996, primarily due to an increase in programming expenses of approximately \$1.7 million and approximately \$3.9 million, respectively, and an increase in compensation and benefits of approximately \$0.1 million and approximately \$0.3 million, respectively, primarily to employees in the customer service and engineering departments. During the three and nine months ended September 30, 1996, programming expenses were affected by the increase in the number of subscribers over the periods, since programming expenses are charged on a per subscriber basis.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative ("SG&A") expenses increased from approximately \$2.4 million for the three months ended September 30, 1995 to approximately \$4.4 million for the three months ended September 30, 1996, but as a percentage of revenues decreased to approximately 51.1% from 75.0%. SG&A increased from approximately \$5.8 million for the nine months ended September 30, 1995 to approximately \$11.6 million for the nine months ended September 30, 1996, but as a percentage of revenues decreased to approximately 54.6% from 86.3%. Compensation and benefits increased by approximately \$0.7 million from the three months ended September 30, 1995 to the three months ended September 30, 1996 and increased by approximately \$2.5 million from the nine months ended September 30, 1995 to the nine months ended September 30, 1996, primarily due to additions to management, additional employees in the sales department and more commissions paid to sales employees. The Company added employees primarily in the sales department, to service the Company's expanded subscriber base and growth, including the expansion into the Goiania and Belem markets. Advertising expenses increased by approximately \$0.3 million from the three months ended September 30, 1995 to the three months ended September 30, 1996 and increased by approximately \$0.7 million from the nine months ended September 30, 1995 to the nine months ended September 30, 1996.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expenses consist primarily of depreciation of decoder boxes, headend facilities and capitalized installation costs. Since inception, the Company's direct costs of obtaining subscribers generally have exceeded installation revenue. These costs are capitalized and depreciated over a five year period. Depreciation and amortization expense increased from approximately \$0.6 million for the three months ended September 30, 1995 to approximately \$1.6 million

for the three months ended September 30, 1996 and increased from approximately \$1.2 million for the nine months ended September 30, 1995 to approximately \$4.0 million for the nine months ended September 30, 1996, primarily due to increases in the number of installed subscribers in each of the Company's three operating systems.

OPERATING LOSS. For the three and nine month periods ended September 30, 1996, the Company generated an operating loss of approximately \$0.02 million and approximately \$0.4 million, respectively, primarily due to expenses in connection with the development of the Company's business, as explained above. The Company may continue to generate operating losses as it expands its existing systems and develops additional systems.

OTHER INCOME (EXPENSE), NET. Interest income (expense), net increased by approximately \$0.01 million for the three months ended September 30, 1996 from the three months ended September 30, 1995 as a result of higher interest expense associated with short-term borrowings from Abril and certain of its affiliates, offset by interest income derived from the investment of the net proceeds of the Offering. Interest income (expense), net increased by approximately \$(0.5) million from the nine month period ended September 30, 1995 to the nine month period ended September 30, 1996 as a result of short-term borrowings from Abril and certain of its affiliates and lower-interest income derived from investments.

Exchange and translation losses have arisen primarily as a result of short-term investments and borrowings denominated in reais, and to a lesser extent from the translation of financial statements from reais to U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52, with the U.S. dollar as the functional currency. These amounts can fluctuate significantly as a result of changes in the exchange rate of the real relative to the U.S. dollar.

INCOME TAXES. The Company did not have taxable income during the nine-month period ended September 30, 1996 and expects to generate losses for the foreseeable future. Effective January 1, 1996, Brazilian effective tax rates declined from approximately 48% to approximately 30.5%.

NET LOSS. As explained above, net loss in the periods presented is primarily attributable to the expenses incurred in connection with the development of the Company's business.

LIQUIDITY AND CAPITAL RESOURCES

The subscription television business is a capital intensive business. The Company made capital expenditures of approximately \$17.5 million in the nine months ended September 30, 1996. Such capital expenditures were financed principally through vendor financings, loans from affiliates and equity offerings. In the past, working capital requirements have been primarily met by (i) vendor financing which generally require payment within 360 days of shipment, some of which has been supported by irrevocable letters of credit guaranteed by Abril (the majority shareholder of Tevecap, a shareholder of the Company) and certain of its affiliates and (ii) borrowings from Abril and certain of its affiliates. As of September 30, 1996, the Company had repaid working capital borrowings from Abril and certain of its affiliates in their entirety with a portion of the net proceeds from the Offering. As a result of the Offering, the Company does not expect to continue borrowing from Abril or its affiliates. As of September 30, 1996, the Company has a payable to Abril of \$400,000 in connection with the Company's purchase of the Belem and Goiania licenses from Abril. Such amount is due in two installments in February 1997 and 1998.

As of September 30, 1996, approximately \$7.5 million was outstanding under letters of credit with maturities ranging from 30 days to 360 days, of which approximately \$4.7 million was guaranteed by affiliates. As of September 30, 1996, the Company had a \$5.0 million line of credit with a commercial bank, of which approximately \$2.0 million was available on such date. The Company currently believes that lines of credit, additional vendor financing and other credit facilities are available on acceptable terms. As a result of the Offering, the Company had positive working capital at September 30, 1996 in the

amount of \$13.6 million. Net cash provided by operating activities for the nine months ended September 30, 1996 was approximately \$6.0 million.

For the last quarter of 1996, the Company anticipates that its aggregate capital expenditures in its existing operating markets will be approximately \$9 million, comprised primarily of subscriber installation equipment. The Company believes that the proceeds of the Offering, together with internally generated funds and vendor financing, will be sufficient to fund its cash requirements and anticipated capital expenditures in its existing operating markets for at least the next 12 months. In the longer term, the Company's liquidity needs are subject to a variety of factors, including launching or acquiring new systems, increasing existing channel offerings, implementing alternative technologies and offering additional communications services. Accordingly, there can be no assurance that the Company will be able to meet its liquidity needs in the longer term.

In addition to expanding its subscriber base in its existing systems, the Company is seeking to launch additional systems, and applications have been made for the Company to operate wireless cable systems in an additional 19 markets. Based on current market and operating conditions, the Company estimates that the cost of launching any additional operating system after the granting of a new license could be up to approximately \$12 million, including construction of a headend facility, subscriber-related capital costs and funding initial development costs and operating losses, depending on factors particular to each such market. The Company also from time to time may selectively pursue the acquisition of existing subscription television systems, although it currently has no understanding, commitment or agreement with respect to any such acquisitions. In addition, the Company has requested from the Ministry of Communications the right to transmit 15 additional channels in each of its markets as permitted under recently promulgated wireless cable regulations. Finally, the Company may implement alternative transmission technologies in the future. If such new systems are launched, acquisitions are consummated, existing channel offerings are increased or alternative technologies are implemented, substantial additional funds may be required. The Company intends to fund such future cash requirements through the issuance of debt and/or additional equity capital, joint ventures or other arrangements. There can be no assurance that the Company will be able to obtain such debt or equity capital on satisfactory terms, or at all, to meet its future financing needs.

INFLATION AND EXCHANGE RATES

Inflation and exchange rate variations have had, and may continue to have, substantial effects on the Company's results of operations and financial condition. In periods of inflation, many of the Company's expenses will tend to increase. Generally, in periods of inflation, a company is able to raise its prices to offset the rise in its expenses and may set its prices without government regulation. However, under Brazilian law designed to reduce inflation, the rates which the Company may charge to a particular subscriber may not be increased until the next anniversary of the subscriber's initial subscription date. Thus, the Company is less able to offset expense increases with revenue increases. Accordingly, inflation may have a material adverse effect on the Company's results of operations and financial condition.

Generally, the effects of inflation in Brazil have been offset in part by devaluation of the Brazilian currency relative to the U.S. dollar. Devaluation of the real may also have an adverse effect on the

Company. The Company collects substantially all of its revenues in reais, but pays certain of its expenses, including a significant portion of its equipment costs and a portion of its programming costs, in U.S. dollars. To the extent the real depreciates at a rate greater than the rate at which the Company raises prices, the value of the Company's revenues (as expressed in U.S. dollars) may be adversely affected. This effect on the Company's revenues may negatively impact the Company's ability to fund U.S. dollar-based expenditures. The Company does not currently seek to hedge exchange rate risks in the financial markets or otherwise, as it believes that the costs of such hedging outweigh the related risks. Accordingly, devaluation of the real may have a material adverse effect on the Company's results of operations and financial condition.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

None.

Item 2. CHANGES IN SECURITIES.

None

Item 3. DEFAULT UPON SENIOR SECURITIES.

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

None

Item 5. OTHER INFORMATION.

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

27. Financial Data Schedule

(b) REPORTS ON FORM 8-K

No reports of Form 8-K were filed by the Company during the quarter ended September 30, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: November 14, 1996

TV FILME, INC.

(Registrant)

/S/ HERMANO STUDART LINS DE ALBUQUERQUE

Hermano Studart Lins de Albuquerque
Chief Executive Officer (Principal Executive Officer)

/S/ ALVARO J. AQUIRRE

Alvaro J. Aquirre
Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGES
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27.	Financial Data Schedule	

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONSOLIDATED BALANCE SHEET OF TV FILME, INC. AT SEPTEMBER 30, 1996, AND THE UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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