



**SPANISH BROADCASTING SYSTEM, INC.**

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### **Special Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Spanish Broadcasting System, Inc. intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of such safe harbor provisions.

“Forward-looking” statements, as such term is defined by the Securities Exchange Commission (the “SEC”) in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, our recapitalization plan and restructuring efforts, growth and acquisition strategies, investments and future operational plans. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “forecast,” “seek,” “plan,” “predict,” “project,” “could,” “estimate,” “might,” “continue,” “seeking” or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including, but not limited to, those identified in our Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the SEC on April 1, 2019 (the “Annual Report”), and those described from time to time in our future reports filed with the SEC. All forward-looking statements made herein are qualified by these cautionary statements and risk factors and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized.

We do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances.

**PART I. FINANCIAL INFORMATION 454,099**

**Item 1. Financial Statements—Unaudited**

**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

	<b>454,099</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 19,202	\$ 22,468
Receivables:			
Trade		32,601	32,769
Barter		145	431
		32,746	33,200
Less allowance for doubtful accounts		1,205	1,649
Net receivables		31,541	31,551
Prepaid expenses and other current assets		4,696	7,480
Total current assets		55,439	61,499
Property and equipment, net of accumulated depreciation of \$62,089 in 2019 and \$60,446 in 2018		22,683	22,414
FCC broadcasting licenses		321,714	321,714
Goodwill		32,806	32,806
Other intangible assets, net of accumulated amortization of \$1,308 in 2018		—	1,239
Operating lease right-of-use assets		16,463	—
Other assets		4,994	4,640
Total assets		\$ 454,099	\$ 444,312
<b>Liabilities and Stockholders' Deficit</b>			
Current liabilities:			



**SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statements of Cash Flows  
(In thousands)

	Six-Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		

## SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Spanish Broadcasting System, Inc. and its subsidiaries (the Company, we, us, our or SBS). All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements as of June 30, 2019 and December 31, 2018 and for the three- and six-month periods ended June 30, 2019 and 2018 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2018, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed by the Company on April 1, 2019 (the “Annual Report”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of June 30, 2019 through the financial statements issuance date. The results of operations for the six-months ended June 30, 2019 are not necessarily indicative of the results for the entire year ending December 31, 2019, or for any other future interim or annual periods.

Certain prior year amounts, which consist primarily of severance pay and station relocation costs, have been reclassified from engineering, programming, selling, general and administrative, and corporate expenses to recapitalization costs to conform to the current period’s financial presentation. These changes had no effect on the Company’s results of operations or financial position.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern, and do not include any adjustments that might result if we were unable to do so, and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As of June 30, 2019 and December 31, 2018, we had a working capital deficit due primarily to the classification of our 10¼% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”) as a current liability and the classification of our 12.5% Senior Secured Notes due 2017 (the “Notes”) as a current liability. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to redeem or repurchase the Series B preferred stock and its accumulated unpaid dividends. If we are successful in repaying or refinancing our Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B preferred stock, to the extent of the funds legally available. The Company is currently involved in litigation with some holders of the Series B preferred stock. See Note 8 elsewhere in these Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail regarding the Series B preferred stock litigation.

As discussed in Note 10, the Notes became due on April 15, 2017. Cash from operations and proceeds from the sale of assets and the FCC spectrum auction were not sufficient to repay the Notes when they became due. We have worked and continue to work with our advisors regarding a consensual recapitalization or restructuring of our balance sheet, including through the issuance of new debt or equity to raise the necessary funds to repay the Notes. The Series B preferred stock litigation and the foreign ownership issue have complicated our efforts at a successful refinancing of the Notes. The resolution of the recapitalization or restructuring of our balance sheet, the litigation with the purported holders of our Series B preferred stock and the foreign ownership issue are subject to several factors currently beyond our control. Our efforts to effect a consensual refinancing of the Notes, the Series B preferred stock litigation and the foreign ownership issue will likely continue to have a material adverse effect on us if they are not successfully resolved.

The Company has incurred \$1.4 million and \$3.4 million, respectively, for the three- and six-months ended June 30, 2019 of recapitalization costs, primarily due to professional fees and costs directly related to our recapitalization efforts. Also included in these amounts are the legal and financial advisory fees incurred by the holders of the Notes.

The Company used \$1.1 million of net cash from operating activities during the six-month period ended June 30, 2019, management has evaluated its cash requirements for the next twelve-month period after the date of the filing of this quarterly report on Form 10-Q and determined that it anticipates generating sufficient cash flows, together with cash on hand, to meet its obligations regarding ordinary course operating activities.

Although the Company expects to maintain cash on hand sufficient to meet its operating obligations, its inability to obtain financing in adequate amounts and on acceptable terms necessary to operate our business, repay our Notes and redeem or refinance our Series B preferred stock, obtain a favorable resolution to the Series B preferred stock litigation, or finance future acquisitions, negatively impacts our business, financial condition, results of operations and cash flows and raises substantial doubt about our ability to continue as a going concern. The financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

### ***Changes in Accounting Policies – Leases***

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)*. This new standard requires organizations that lease assets to recognize on the balance sheet the lease assets and lease liabilities for the rights and obligations created by those leases (with the exception of short-term leases) and disclose key information about the leasing agreements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard also requires expanded disclosures regarding leasing arrangements. In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, intended to clarify the Codification or to correct unintended application of the guidance and ASU No. 2018-11, *Leases (Topic 842) – Targeted improvements*, which provides an alternative modified retrospective transition method. Under this method, the cumulative-effect adjustment to the opening balance of retained earnings is recognized on the date of adoption. We adopted this ASU on January 1, 2019 using the modified retrospective approach and have elected the transition option, which allows us to continue to apply the legacy guidance for comparative periods, including disclosure requirements, in the year of adoption. We have elected to use the package of practical expedients available to us, including the short-term lease exception. Adoption of the new standard resulted in the recording of right-of-use assets and lease liabilities of \$13.9 million and \$13.9 million, respectively, as of January 1, 2019. The operating lease right-of-use asset includes the impact upon adoption of ASC Topic 842 of the derecognition of lease incentives, deferred rent, below-market lease intangibles, and prepaid rent balances recognized in prepaid expenses and other current assets, other intangible assets, accounts payable and other accrued liabilities and other liabilities on the consolidated balance sheets as of December 31, 2018. The standard did not materially impact our consolidated statements of operations or consolidated statements of cash flows. Additionally, we did not record a cumulative effect adjustment to opening accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting guidance in effect for that period.

### ***Recently Issued Accounting Pronouncements***

In March 2019, the FASB issued ASU No. 2019-02, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*. ASU 2019-02 helps organizations align their accounting for production costs for films and episodic content produced for television and streaming services. The standard addresses when an organization should assess films and license agreements for program material for impairment at the film-group level, revises presentation requirements; requires new disclosures about content that is either produced or licensed; and, addresses cash flow classification for license agreements. The



In June 2018, the FASB issued ASU No. 2018-07

A contract for local, national, digital and network advertising exists only at the time commercial substance is present. For each contract, the Company considers the promise to air or display advertisements, each of which is distinct, to be the identified performance obligation. The price as specified on a customer purchase order is considered the standalone selling price as it is an observable input which depicts the price as if sold to a similar customer in similar circumstances. Revenue is recognized when control is transferred to the customer (i.e., when the Company's performance obligation is satisfied), which typically occurs as an advertisement airs or appears.

**(b) Special events**

Special events revenue is generated from ticket sales, as well as through profit-sharing arrangements for producing or co-producing live concerts and events promoted by radio and television stations.

In addition to ticket sales, the Company enters into profit-sharing arrangements to produce or co-produce live concerts and events with partners which may also purchase various production services from the company. These contracts include multiple promises that the Company evaluates to determine if the promises are separate performance obligations. Once the Company determines the performance obligations and the transaction price, including estimating the amount of variable consideration, the Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method or using the variable consideration allocation exception if the required criteria are met. The corresponding revenues are recognized as the related performance obligations are satisfied, which may occur over time (i.e. term of agreement) or at a point in time (i.e. event completion). In order to determine if revenue should be reported gross as principal or net as agent, the Company considers indicators such as if it is the party primarily responsible for fulfillment, has inventory risk, and has discretion in establishing price to determine control. When management determines it controls an event, it is acting as the principal and records revenue gross.

### ***Significant Judgments***

As part of its consideration of the existence of contracts, the Company evaluates certain factors including the customer's ability to pay (or credit risk). Advertising contracts are for one year or less. In determining the transaction price the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. In determining whether control has transferred, the Company considers if there is a present right to payment and legal title, along with risks and rewards of ownership having transferred to the customer.

### ***Contract Balances***

Local, national, digital and network revenue of \$0.1 million and \$0.3 million was recognized during the three- and six-months ended June 30, 2019, respectively, that was included in the unearned revenue balances at the beginning of the period. During the three-months ended June 30, 2019, there were no special events revenue recognized that were included in the unearned balances at the beginning of period and \$0.1 million of special events revenue recognized during the six-months ended June 30, 2019 that were included in the unearned balances at the beginning of period. Barter revenue of \$0.3 million and \$0.4 million was recognized during the three- and six-months ended June 30, 2019, respectively, that was included in the unearned revenue balances at the beginning of the period. Other revenue recognized during the three- and six-months ended June 30, 2019 that were included in unearned revenue balances at the beginning of the period were not significant.

### **3. Leases**

The Company has commitments under operating leases for office space and radio tower sites used in its operations. Our leases have initial lease terms that expire between 2019 and 2082, most of which include options to extend or renew the leases. Currently, we do not have finance leases. Our annual rental expenses can range from less than \$3 thousand up to \$0.5 million. The Company determines if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (1) there is an identified asset in the contract that is land or a depreciable asset (i.e., property, plant, and equipment), and (2) the customer has the right to control the use of the identified asset.

Certain rental agreements for office space and radio towers contain non-lease components such as common area maintenance and utilities. The Company elected to apply the practical expedient that permits lessees to make an accounting policy election to account for each separate lease component of an office space and radio tower lease contract and its associated non-lease components as a single lease component. Certain rental agreements for office space and radio towers also include taxes and insurance which are

The following table summarizes the components of lease cost for the three- and six-months ended June 30, 2019 (in thousands):

	<b>Three-Months Ended June 30, 2019</b>	<b>Six-Months Ended June 30, 2019</b>
Operating lease cost	\$ 1,101	\$ 2,161
Sublease income	(563)	(1,073)
Total lease cost	<u>\$ 538</u>	<u>\$ 1,088</u>

Lease costs for the three- and six-months ended June 30, 2018 include minimum rental payments under operating leases recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases during the three- and six-months ended June 30, 2018 amounted to \$0.9 million and \$1.8 million, respectively.

At June 30, 2019, amounts reported in the Consolidated Balance Sheet are as follows (in thousands):

	<b>Six-Months Ended June 30, 2019</b>
Operating Leases:	
Operating lease right-of-use assets	\$ 16,463

We have agreements to sublease our radio frequencies and portions of our tower sites and buildings. Such agreements provide for payments through 2023. Future minimum rental income to be received under these agreement as of June 30, 2019 is as follows:

Year ending December 31:	
2019 (excluding the six-months ended June 30, 2019)	\$ 769
2020	1,137
2021	554
2022	365
2023	104
Thereafter	—
Total undiscounted lease payments	<u>\$ 2,929</u>

#### 4. Basic and Diluted Net Loss Per Common Share

In calculating net loss per share, the Company follows the two-class method, which distinguishes between classes of securities based on the proportionate participation rights of each security type in the Company's undistributed net loss. The Company's Class A common stock, Class B common stock and Series C convertible preferred stock share equally on an as-converted basis with respect to net loss.

Basic net loss per share is computed by dividing net loss applicable to stockholders by the weighted average number of shares for each period on an as-converted basis. Diluted net loss per common share is computed by giving effect to common stock equivalents as if they were outstanding for the entire period.

The following tables set forth the computation of basic and diluted net loss available to stockholders for the three- and six-month periods ended June 30, 2019 and 2018 (in thousands):

	Three-Months Ended June 30,					
	2019			2018		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net loss per share:						
Numerator						
Allocation of undistributed losses	\$(1,022)	(564)	(183)	\$(1,152)	(639)	(207)
Denominator						
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,217	2,340	760
Basic net loss per share	\$ (0.24)	(0.24)	(0.24)	\$ (0.27)	(0.27)	(0.27)
Diluted net loss per share:						
Numerator						
Allocation of undistributed losses	\$(1,022)	(564)	(183)	\$(1,152)	(639)	(207)
Denominator						
Number of shares used in basic computation	4,242	2,340	760	4,217	2,340	760
Weighted-average impact of dilutive equity instruments	—	—	—	—	—	—
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,217	2,340	760
Diluted						



## 5. Stockholders' Deficit

The changes in stockholders' deficit for the three- and six-month periods ended June 30, 2019 and 2018 are as follows:

	Three-Months Ended		Six-Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Beginning balance	\$ (83,311)	\$ (99,261)	\$ (79,379)	\$ (95,914)
Net loss	(1,769)	(1,998)	(5,701)	(5,367)
Stock-based compensation	7	11	7	33
Ending balance	<u>\$ (85,073)</u>	<u>\$ (101,248)</u>	<u>\$ (85,073)</u>	<u>\$ (101,248)</u>

## 6. Operating Segments

We have two reportable segments: radio and television.

The following summary table presents separate financial data for each of our operating segments (in thousands):

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2019	2018	2019	2018
<b>Net revenue:</b>				
Radio	\$ 32,992	\$ 31,279	\$ 67,071	\$ 60,530
Television	3,939	3,501	7,215	8,156
Consolidated	\$ 36,931	\$ 34,780	\$ 74,286	\$ 68,686

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Designations in connection with a forbearance agreement we entered into with certain Noteholders on May 8, 2017 (the “Forbearance Agreement”) and breach of our Charter regarding the foreign ownership issues described below. Specifically, it alleges that the Forbearance Agreement (which expired on May 31, 2017) and certain payments pursuant thereto were barred by the Certificate of Designations due to the existence of a “Voting Rights Triggering Event” under the Certificate of Designations because, among other things, the forbearance agreement allegedly constituted a “de facto” extension or refinancing of the Notes. The Preferred Holder Complaint alleges that SBS breached the Charter by suspending certain rights of the Series B preferred stockholders, and that Section 10.4 of the Charter is overbroad and thus invalid as a matter of Delaware law. The complaint requests relief including, among other things, an order interpreting and enforcing the Certificate of Designations, preventing us from making any additional payments on the Notes and requiring us to redeem the Series B preferred stock at face value plus accrued dividends (of approximately \$180.2 million

The estimated fair values of our financial instruments are as follows (in millions):

Description	Fair Value Hierarchy	June 30, 2019		December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
12.5% Senior Secured Notes due 2017 (note 10)	Level 2	\$ 249.9	260.2	\$ 249.9	258.6
10 <sup>3/4</sup> % Series B cumulative exchangeable					

### ***Collateral and Ranking***

The Notes and the guarantees are secured on a first-priority basis by a security interest in certain of the Company's and the guarantors' existing and future tangible and intangible assets (other than Excluded Assets (as defined in the Indenture)), which constitutes substantially all of the Company's assets. The Notes and the guarantees are structurally subordinated to the obligations of our non-guarantor subsidiaries. The Notes and guarantees are senior to all of the Company's and the guarantors' existing and future unsecured indebtedness to the extent of the value of the collateral.

The Indenture permits us, under specified circumstances, to incur additional debt; however, the occurrence and continuance of the Voting Rights Triggering Event (as defined in Note 11 of the Notes to the Unaudited Condensed Consolidated Financial Statements) currently prevents us from incurring any such additional debt.

The Notes are senior secured obligations of the Company that rank equally with all of our existing and future senior indebtedness and senior to all of our existing and future subordinated indebtedness. Subject to certain exceptions, the Notes are fully and unconditionally guaranteed by each of our existing wholly owned domestic subsidiaries (which excludes (i) our existing and future subsidiaries formed in Puerto Rico (the "Puerto Rican Subsidiaries"), (ii) our future subsidiaries formed under the laws of foreign jurisdictions and (iii) our existing and future subsidiaries, whether domestic or foreign, of the Puerto Rican Subsidiaries or foreign subsidiaries) and our other domestic subsidiaries that guarantee certain of our other debt. The Notes and guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of our non-guarantor subsidiaries.

### ***Covenants and Other Matters***

The Indenture contains covenants that, among other things, limit our ability and the ability of the guarantors to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions, repurchase or redeem our capital stock and make certain restricted investments and make other restricted payments;
- sell assets;
- incur liens;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends, make loans and sell assets to the Company and other restricted subsidiaries;
- enter into change of control transactions;
- manage our FCC licenses and broadcast license subsidiaries; and
- consolidate, merge or sell all or substantially all of our assets.

As a result of our failure to pay the Notes at maturity, an event of default under the Indenture has occurred and is continuing.

## **11. 10<sup>3</sup>/<sub>4</sub>% Series B Cumulative Exchangeable Redeemable Preferred Stock**

### ***Voting Rights Triggering Event***

On October 30, 2003, we partially financed the purchase of a radio station with proceeds from the sale, through a private placement, of 75,000 shares of our 10<sup>3</sup>/<sub>4</sub>% Series A cumulative exchangeable redeemable preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series A preferred stock"), without a specified maturity date. The gross proceeds from the issuance of the Series A preferred stock amounted to \$75.0 million.

On February 18, 2004, we commenced an offer to exchange registered shares of our 10<sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series B preferred stock") for a number of shares of our 10<sup>3</sup>/<sub>4</sub>% Series A preferred stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share (the "Series A preferred stock"). The offer was completed on February 18, 2004, and the gross proceeds from the issuance of the Series A preferred stock amounted to \$76,702,000.



Given the information that was disclosed to us in the Preferred Holder Complaint regarding the purported ownership of a majority of the Series B preferred stock by foreign entities, we were required to take immediate remedial action in order to ensure that any potential violations of the Communications Act and our Charter resulting from that ownership did not adversely affect our FCC broadcast licenses and ability to continue our business operations. Accordingly, on November 28, 2017, consistent with our obligations and authority provided to us under the Communications Act and by Article X of our Charter, we notified the purported holders of our Series B preferred stock that we were suspending all rights, effective immediately, of the holders of the Series B preferred stock, other than their right to transfer their shares to a citizen of the United States. Such suspension of rights was meant from the outset to be a temporary and reasonable measure, intended to elicit the information necessary to determine which Series B preferred stock sales were valid under the Charter. The Company pledged to restore the suspended rights to each shareholder that demonstrated it was neither an alien nor a representative of an alien or upon a showing that its ownership of Series B preferred stock (including stakes held by any non-U.S. entities) complies with Section 310(b) of the Communications Act and the Charter.

Additionally, on November 13, 2017, the Company filed a notification with the FCC to apprise the FCC of the possible non-compliance with the Communications Act's limits on foreign ownership. On December 4, 2017, the Company also filed a petition with the FCC for declaratory ruling (the "Petition") with respect to the potential excess foreign ownership. The Company filed the Petition not because it had concluded that an affirmative FCC public interest ruling regarding recognized foreign ownership was required, but at the suggestion of FCC staff to ensure the Company had prophylactically availed itself of the "safe harbor" protections of Section 1.5004(f)(4) of the FCC's Rules, in the event such a declaratory ruling ultimately proved necessary. This suggestion came after the Company had previously notified the FCC of a possible Section 310(b) foreign ownership issue triggered by the filing of the Preferred Holder Complaint. The FCC responded to the Petition by sending a letter to the Company detailing the information the FCC would need regarding the identities and nature of the purported foreign ownership of the Series B preferred stock to make a determination regarding the Petition and establishing a deadline for the disclosure of that information. The purported Series B preferred stockholders were therefore required to provide to the Company sufficient information about the extent and nature of their

On July 9, 2019, counsel to the Prohibited Foreign Purchasers sent a letter to the FCC requesting that it review the Company's equity as mandated by seminal FCC precedent and conclude that the holders of the Series B preferred stock, including the Prohibited Foreign Purchasers, did not and do not cause the Company to exceed the 25 percent foreign ownership benchmark. According to the letter, the Prohibited Foreign Purchasers disagree with the Company's calculations of its foreign equity ownership. The Company disagreed with the contents of this letter and on August 6, 2019 filed a timely response with the FCC detailing its objection to the Prohibited Foreign Purchasers position and again requesting that the FCC defer the issue to the pending Chancery Court proceeding. As of the date of these financial statements, the FCC has not communicated with the Company regarding these letters.

As of the date of these financial statements, the Company believes that there remain genuine questions regarding valid ownership, or good title, to the Series B preferred stock by these foreign investors. As a result, we intend to remain vigilant regarding compliance with the Communications Act and our Charter and will continue to evaluate information provided to us by the purported holders of the Series B preferred stock. Because we have not yet received all of the requisite information from the purported holders, we have been unable to effectively determine whether to withdraw the suspension of their rights as owners of such preferred stock or the extent of any additional remedial action by the Company that may be necessary.

### ***Quarterly Dividends***

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the Series B preferred stock at a rate of 10 <sup>3</sup>/<sub>4</sub>% per year, of the \$1,000 liquidation preference per share. All dividends are cumulative, whether or not earned or declared, and are payable quarterly in arrears on specified dividend payment dates. While the Voting Rights Triggering Event continues, we cannot pay dividends on the Series B preferred stock without causing a breach of covenants under the Indenture governing our Notes.

As of June 30, 2019, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately \$89.6 million, which is accrued on our condensed consolidated balance sheet as 10 <sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable redeemable preferred stock.

### ***Accounting Treatette***





### ***Business Drivers and Financial Statement Presentation***

The following discussion provides a brief description of certain key items that appear in our consolidated financial statements and general business factors that impact these items.

#### ***Net Revenue Description and Factors***

Our net revenue is primarily derived from the sale of advertising airtime to local, national and network advertisers. Net revenue is gross revenue less agency commissions, which are generally 15% of gross revenue.

- Local and digital revenue generally consists of advertising airtime sold in a station's local market, as well as the sale of cal market,r/O

### ***Operating Expenses Description and Factors***

Our operating expenses consist primarily of (1) engineering and programming expenses, (2) selling, general and administrative expenses and (3) corporate expenses.

- *Engineering and programming expenses.* Engineering and programming expenses are related to the delivery and creation of our programming content on the air. These expenses include compensation and benefits for employees and on-air talent involved in engineering and programming, transmitter-related expenses, originally produced content, on-air promotions, acquired programming, music license fees, and other expenses.
- *Selling, general and administrative expenses.* Selling, general and administrative expenses are related to the costs of selling our programming content and administrative costs associated with operating and managing our stations. These expenses include compensation and benefits for employees involved in selling and administrative functions, commissions, rating services, advertising, barter expenses, facilities expenses, special events expenses, professional fees, insurance, allowance for doubtful accounts, affiliate station compensation and other expenses.
- *Corporate expenses.* Corporate expenses are related to the operations of our corporate offices and matters. These expenses include compensation and benefits for our corporate employees, professional fees, insurance, corporate facilities expenses and other expenses.

We strive to control our operating expenses by centralizing certain functions at our corporate offices and consolidating certain functions in each of our market clusters. In our pursuit to control our operating expenses, we work closely with our local station management and vendors.

## Comparison Analysis of the Operating Results for the Three-Months Ended June 30, 2019 and 2018

The following summary table presents financial data for each of our operating segments (in thousands):

	Three-Months Ended June 30,	
	2019	2018
<b>Net revenue:</b>		
Radio	\$ 32,992	\$ 31,279
Television	3,939	3,501
Consolidated	<u>\$ 36,931</u>	<u>\$ 34,780</u>
<b>Engineering and programming expenses:</b>		
Radio	\$ 5,201	\$ 5,332
Television	1,855	1,162
Consolidated	<u>\$ 7,056</u>	<u>\$ 6,494</u>
<b>Selling, general and administrative expenses:</b>		
Radio	\$ 13,177	\$ 11,911
Television	1,733	1,253
Consolidated	<u>\$ 14,910</u>	<u>\$ 13,164</u>
<b>Corporate expenses:</b>		
	<u>\$ 2,798</u>	<u>\$ 3,245</u>
<b>Depreciation and amortization:</b>		
Radio	\$ 398	\$ 409
Television	450	504
Corporate	51	58
Consolidated	<u>\$ 899</u>	<u>\$ 971</u>
<b>Recapitalization costs:</b>		
Radio	\$ —	\$ —
Television	—	—
Corporate	1,444	1,360
Consolidated	<u>\$ 1,444</u>	<u>\$ 1,360</u>
<b>Executive severance expenses</b>		
Radio	\$ —	\$ —
Television	—	—
Corporate	1,844	—
Consolidated	<u>\$ 1,844</u>	<u>\$ —</u>
<b>Impairment charges:</b>		
Radio	\$ —	\$ —
Television	—	483
Corporate	—	—
Consolidated	<u>\$ —</u>	<u>\$ 483</u>
<b>Other operating income:</b>		
Radio	\$ (3)	\$ (12)
Television	—	(38)
Corporate	—	—
Consolidated	<u>\$ (3)</u>	<u>\$ (50)</u>
<b>Operating income:</b>		
Radio	\$ 14,219	\$ 13,639
Television	(99)	137
Corporate	(6,137)	(4,663)
Consolidated	<u>\$ 7,983</u>	<u>\$ 9,113</u>

The following summary table presents a comparison of our results of operations for the three-months ended June 30, 2019 and 2018 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.



**Comparison Analysis of the Operating Results for the Six-Months Ended June 30, 2019 and 2018**

The following summary table presents a comparison of our results of operations for the six-months ended June 30, 2019 and 2018 (in thousands). Various fluctuations in our results are discussed below. This section should be read in conjunction with our unaudited condensed consolidated financial statements and notes.

	Six-Months Ended June 30,	
	2019	2018
Net revenue	\$ 74,286	\$ 68,686
Engineering and programming expenses	14,087	

***Executive Severance Expenses***

The Company incurred \$1.8 million of executive severance expenses in connection with the retirement and separation agreement with our former SEVP/CFO.

***Impairment Charges***



- We had a working capital deficit of \$395.6 million, primarily due to the classification of our Notes and Series B preferred stock as current liabilities. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Excluding the Series B preferred stock of \$180.2 million, our adjusted working capital deficit totals \$215.4 million.

We continue to evaluate all options to effect a successful recapitalization or restructuring of our balance sheet, including a

Historically, we have evaluated strategic media acquisitions and/or dispositions and strived to expand our media content through distribution, programming and affiliation agreements in order to achieve a significant presence with clusters of stations in the top U.S. Hispanic markets. Historically, we have engaged in discussions regarding potential acquisitions and/or dispositions and expansion of our content through media outlets from time to time in the ordinary course of business. As a result of the consequences resulting from the occurrence of the Voting Rights Triggering Event and the need to repay the Notes, we are currently not able to finance acquisitions through the incurrence of additional debt and are subject to additional restrictions which may preclude us from being able to execute this strategy.

*12.5% Senior Secured Notes due 2017*

The terms of the Certificate of Designations for our Series C preferred stock limits our ability to (i) enter into transactions with affiliates and certain merger transactions and (ii) create or adopt any shareholders rights plan.

Mr. Alarcón is also the beneficial owner of all the shares of Series C preferred stock which are convertible into 760,000 shares of Class A common stock, subject to certain adjustments.

#### ***Class A Common Stock***

As of June 30, 2019, we had 4,241,991 shares of Class A common stock outstanding.

#### ***Class B Common Stock***

As of June 30, 2019, 2,340,353 shares of Class B common stock were outstanding, which have ten votes per share. Raúl Alarcón, our Chief Executive Officer and the Chairman of our Board of Directors, has voting control over all but 350 shares of the Class B common stock.

#### **Summary of Capital Resources**

The following summary table presents a comparison of our capital resources for the six-months ended June 30, 2019 and 2018, with respect to certain key measures affecting our liquidity (in thousands). The changes set forth in the table are discussed below. This section should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the notes thereto.

	<b>Six-Months Ended</b>		<b>Change</b>
	<b>June 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>\$</b>
Capital expenditures:			
Radio	\$ 1,026	\$ 873	153
Television	799	74	725
Corporate	301	34	267
Consolidated	<u>\$ 2,126</u>	<u>\$ 981</u>	<u>1,145</u>
Net cash flows (used in) provided by operating activities	\$ (1,090)	\$ 5,401	(6,491)
Net cash flows used in investing activities	(2,176)	(831)	(1,345)
Net cash flows from financing activities	—	—	—
Net (decrease) increase in cash and cash equivalents	<u>\$ (3,266)</u>	<u>\$ 4,570</u>	

#### ***Capital Expenditures***

The increase in our capital expenditures was primarily due to the San Francisco studio relocation and build-out; purchases of office and transmitter equipment in Puerto Rico; Miami Broadcast Center building and system infrastructure improvements; purchases of Television studio equipment; and purchases of Corporate office and telecommunications equipment.

#### ***Net Cash Flows (Used in) Provided by Operating Activities***

Changes in our net cash flows (used in) provided by operating activities were primarily a result of decreases in working capital and operating income.

#### ***Net Cash Flows Used in Investing Activities***

Changes in our net cash used in investing activities were primarily a result of relocating and building out our San Francisco studios and offices and infrastructure and building improvements at the Miami Broadcast Center facility and corporate offices.

#### ***Net Cash Flows from Financing Activities***

None.

## **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

## **Recently Issued Accounting Pronouncements**

Recently issued accounting pronouncements are described in Note 1 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and related disclosures. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

Our critical accounting policies are described in Item 7 of our Annual Report. There have been no material changes to our critical accounting policies during the six-months ended June 30, 2019.

## **Changes in Accounting Policies – Leases**

In February 2016, the accounting guidance for leases was modified to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. The guidance was effective on January 1, 2019, and was implemented using a modified retrospective approach at the beginning of the period of adoption, rather than at the beginning of the earliest comparative period presented in these financial statements. As a result, we changed our accounting policy for leases. Refer to Note 1 Basis of Presentation – Changes in Accounting Policies - Leases, included elsewhere in this quarterly report on Form 10Q for additional information.

## **Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

We are a “smaller reporting company” as defined by Regulation S-K and as such, we are not required to provide the information contained in this item pursuant to Regulation S-K.

## **Item 4. *Controls and Procedures***

*Evaluation Of Disclosure Controls And Procedures.* Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes In Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

For a description of our legal proceedings, see Note 8, Commitments and Contingencies, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

### **Item 3. Defaults Upon Senior Securities**

For a description of defaults upon senior securities, see Note 10, 12.5% Senior Secured Notes, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

The following exhibits, which are numbered in accordance with Item 601 of Regulation S-K, are filed herewith or, as noted, furnished herewith or incorporated by reference herein:

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.47	<a href="#">Separation agreement dated as of May 31, 2019, by and between the Company and Jose Antonio Garcia.</a>
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Periodic Financial Report by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Periodic Financial Report by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

## 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.

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSÉ I. MOLINA \_\_\_\_\_

José I. Molina

*Chief Financial Officer*

*(principal financial and accounting officer  
and duly authorized officer of the registrant)*

Date: August 9, 2019