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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from                      to

**SPANISH BROADCASTING SYSTEM, INC.**

**INDEX**

Page

### **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").

- *The failure or destruction of satellites and transmitter facilities that we depend upon to distribute our programming could materially adversely affect our business and results of operation;*
- *Long term effects of the hurricane damage in our Puerto Rico, Houston and Miami markets and the potential for future storm related damage or damage from other natural disasters could adversely affect our revenues.*
- *Our ability to respond to rapidly changing technology, services and standards which characterize our industry in order to remain competitive;*
- *Our ability to retain key employees, on-air talent and program hosts;*
- *Impairment of our goodwill and other intangible assets deemed to have indefinite useful lives can cause our net income or net loss to fluctuate significantly;*
- *Piracy of our programming and other content, including digital and internet piracy, may decrease revenue received from the exploitation of our programming and other content and adversely affect our business and profitability;*
- *The material weakness in our internal control over financial reporting, which could adversely affect our business, reputation and results of operations;*
- *Damage to our brands or reputation;*
- *Our business may be adversely affected by legal or governmental proceedings brought by or on behalf of our employees;*
- *Raúl Alarcón, the Chairman of our Board of Directors, Chief Executive Officer and President, has majority voting control of our common stock and 100% voting control of our Series C preferred stock and this control may discourage or influence certain types of transactions or strategic initiatives; and*
- *Changes in government regulations, and*
- *Other risk factors discussed in our Annual Report.*

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

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements—Unaudited**

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

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

|                 | <b>June 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|-----------------|--------------------------|------------------------------|
| <b>Assets</b>   |                          |                              |
| Current assets: |                          |                              |

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

Unaudited Condensed Consolidated Statements of Operations  
and Comprehensive Income (Loss)  
(In thousands, except per share data)

|                             | Three-Months Ended |           | Six-Months Ended |           |
|-----------------------------|--------------------|-----------|------------------|-----------|
|                             | June 30,           |           | June 30,         |           |
|                             | 2018               | 2017      | 2018             | 2017      |
| Net revenue                 | \$ 34,780          | \$ 34,181 | \$ 68,686        | \$ 65,531 |
| Operating expenses:         |                    |           |                  |           |
| Engineering and programming | 6,529              | 6,818     |                  |           |

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

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

Unaudited Condensed Consolidated Statements of Cash Flows  
(In thousands)

|                                       | Six-Months Ended |      |
|---------------------------------------|------------------|------|
|                                       | June 30,         |      |
|                                       | 2018             | 2017 |
| Cash flows from operating activities: |                  |      |
| Net loss 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, 2018 and December 31, 2017 and for the three- and six-month periods ended June 30, 2018 and 2017 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, 2017, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed by the Company on May 23, 2018 (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, 2018 through the financial statements issuance date. The results of operations for the six-months ended June 30, 2018 are not

sell assets (including the equity of our subsidiaries that own our FCC licenses) under distressed circumstances and the risk that we are unable to execute on a successful plan of reorganization or restructuring.

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.

Management is responsible for evaluating whether there is substantial doubt about the organization's ability to continue as a going concern and to provide related disclosures. Although we expect to maintain cash on hand sufficient to meet our operating obligations, our inability to (i) 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; and (ii) obtain a favorable resolution to the Series B preferred stock litigation and the foreign ownership issue, 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.

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

In June 2018, the FASB issued ASU No. 2018-07 *Compensation—Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of share-based compensation guidance to include share-based payment transactions for acquiring goods and services from nonemployees. The update is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than the adoption date for ASC 606 on revenue recognition. The update is effective through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the effect the update will have on its financial statements.

In March 2018, the FASB issued ASU No. 2018-05,

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, to allow a reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the enactment of the Tax Legislation. The update is effective for annual periods beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted. The update is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the US federal corporate income tax rate in the Tax Legislation is recognized. The Company is currently evaluating the effect of this update and does not expect the new guidance to have a material impact on its financial statements.

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 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 income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, intended to clarify the Codification or to correct unintended application of the guidance and ASU 2018-11, *Leases (Topic 842) – Targeted Improvements*, which provides an additional and optional transition method to adopt the new lease requirements. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period and must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that this new standard will have on our financial position and related disclosures and expect the impact on our assets and liabilities will be material due to the addition of right-of-use assets and lease liabilities; however the impact cannot currently be quantified.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard provides guidance for the recognition, measurement and disclosure of revenue resulting from contracts with customers and will supersede virtually all of the current revenue recognition guidance under U.S. GAAP. In July 2015, the FASB postponed the effective date of this standard. The standard is now effective for the first interim period within annual reporting periods beginning after December 15, 2017. In May 2016, the FASB issued accounting standards updates to address implementation issues and to clarify the guidance for identifying performance obligations, licenses, and determining if a company is the principal or agent in a revenue arrangement. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606*, which is intended to make minor corrections and to improve and clarify the implementation guidance of Topic 606. The new standard also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company implemented an evaluation tool to assist it in clearly determining the risks, materiality and complexities associated with its multiple revenue streams. The Company finalized its assessment of its impacts and determined there was no material effect on our financial position and results of operations nor do we expect to have a material impact on our financial statements in future periods. The timing and amount of revenue recognized based on the new standard is consistent with the revenue recognition policy under previous guidance, however, certain additional financial statement disclosures are now required, including additional disaggregated view of revenue. We have adopted the new standard effective January 1, 2018, using the modified retrospective transition method and comparative information has not been restated and continues to be presented under the accounting guidance effective for that period.

## **2. Revenue**

The Company adopted ASC 606 on January 1, 2018 using the modified retrospective transition method as the timing and amount of revenue recognized based on the new standard is consistent with the revenue recognition policy under previous guidance and there was no material impact to our financial position or results of operations. The adoption of ASC 606 represents a change in accounting principle that more closely aligns revenue recognition with the delivery of the Company's services and provides financial statement readers with enhanced disclosures. In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized and reported reflects the consideration to which the Company expects to be entitled to receive in exchange for these services and entitled under the contract. Substantially all deferred revenue is recognized within twelve months of the payment date. To achieve this core principle, the Company applies the following five steps:

- 1) Identify the contract with a customer,
- 2) Identify the performance obligations in the contract,
- 3) Determine the transaction price,
- 4) Allocate the transaction price to performance obligations in the contract, and
- 5) Recognize revenue when or as the Company satisfies a performance obligation.

***Disaggregation of Revenue***

The following table summarizes revenue from contracts with customers for the three-months and six-months ended June 30, 2018 and 2017 (in thousands):

|                             | <b>Three-Months Ended</b> |             | <b>Six-Months Ended</b> |             |
|-----------------------------|---------------------------|-------------|-------------------------|-------------|
|                             | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                             | <b>2018</b>               | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Local, national and digital | \$ 32,243                 | \$ 30,722   | \$ 60,871               | \$ 58,619   |
| Network                     | 2,954                     | 2,604       | 5,084                   | 4,084       |

**(d) Barter advertising**

Barter sales agreements are used to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services.

A contract for barter 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 counterparty's 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 displays.

**(e) Other revenue**

### 3. Basic and Diluted Net Income (Loss) Per Common Share

In calculating earnings 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 income (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 income (loss).

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

The following table sets forth the allocation for net income (loss) available to stockholders for the three- and six-month periods ended June 30, 2018 and 2017 (in thousands):

**Three-Months Ended**







Agreement”) and breach of our Third Amended and Restated Certificate of Incorporation (the “Charter”) and for a declaratory judgment regarding the validity of a provision of the Charter regarding the foreign ownership issue we describe in greater detail under the heading “Our Continued Recapitalization and Restructuring Efforts—Foreign Ownership Issue” in our Annual Report. 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 (or approximately \$170.4 million as of June 30, 2018), as well as unspecified money damages and a declaration that Section 10.4 of the Charter is invalid. This is the fourth lawsuit filed against us by holders or purported holders of our Series B preferred stock, the first three of which we successfully challenged and won. We believe these claims are without merit, and we intend to defend ourselves vigorously. We have filed a motion to dismiss these claims, for which oral argument was heard on April 12, 2018. However given the uncertainties inherent in litigation, there can be no assurances that we will be successful and win the current litigation.

### ***State Tax Assessment***

The Company is periodically subject to state tax audits. During the first quarter of 2018, the Company agreed to settle an audit by a State tax authority, which challenged the Company’s allocation of subsidiary capital and attributable liabilities, for the tax years from December 31, 2010 through 2013. The Company settled the liability for \$0.3 million. This settlement also results in \$0.2 million of additional taxes owed to another local jurisdiction that is expected to be paid during the third quarter of 2018. Tax years 2014 and later remain open and subject to audit.

### ***Local Tax Assessment***

The Company received an audit assessment (the “Assessment”) wherein it was proposed that the Company underpaid a local tax for the tax periods between June 1, 2005 and May 31, 2015 totaling \$1,439,452 in underpaid tax, applicable interest and penalties. The Company disagrees with the assessment and related calculations but is developing a settlement strategy to discuss and pursue with the taxing jurisdiction with the hope of avoiding a lengthy litigation process. While we are uncertain as to whether the jurisdiction will accept this offer, an accrual of \$391,000, based upon our current best estimate of probable loss, was charged to operations in the second quarter of 2016. However, if the settlement offer is not accepted by the jurisdiction, the amount of the ultimate loss to the Company, if any, may equal the entire amount of the Assessment sought by the taxing jurisdiction.

### ***Gutierrez-Ortiz Lawsuit***

We are a defendant in *Aida Ivette Gutiérrez Ortiz et al. v. Municipio Autónomo de Bayamón, et al.*, a lawsuit involving the death of a man who was shot and killed at a concert co-promoted by us. Plaintiffs allege that we were negligent because we did not provide the necessary security to prevent the entry of firearms in the concert venue or its surrounding areas. Plaintiffs also allege we did not provide the necessary measures to control the venue and allege that we were negligent because we failed to provide the necessary medical assistance to aid the victim. Plaintiffs are seeking an estimated \$3.5 million as indemnity. We intend to defend our self vigorously against this claim.

The Pretrial Conference was held on August 14, 2017 and a hearing to mark the evidence was scheduled for October 13th, but due to the passage of Hurricanes Irma and María, said hearing was cancelled until further notice. The trial dates previously scheduled for October 23 through November 2, 2017 were also cancelled until further notice from the Court. On February 16, 2018, the court held a status conference hearing to schedule the trial dates. The trial is set to begin on August 6, 2018 for a four day trial. At this stage, an estimate of loss cannot be made, however, we believe we have good defenses and it is not probable that the outcome of the litigation will result in a material loss or liability to us.

## **7. Impairment of FCC Broadcasting Licenses**

We generally perform our annual impairment test of our indefinite-lived intangibles during the fourth quarter of the fiscal year but, given the recent performance for total market revenues in several radio markets and the Puerto Rico television market, we performed an interim impairment test as of June 30, 2018 of our FCC broadcasting radio licenses in Chicago and San Francisco, as well as our Puerto Rico FCC television broadcasting license.

We perform valuations using the discounted cash flow methodology. This income approach consists of a quantitative model, which assumes the FCC broadcasting licenses are acquired and operated by a third-party. This valuation method is based on the premise that the only asset that an unbuilt start-up station possesses is the FCC broadcasting license. Such method isolates the income attributable to an FCC broadcasting license by modeling a hypothetical greenfield build-up to a normalized enterprise that, by design,



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

| Description   | Fair Value Hierarchy | June 30, 2018   |            | December 31, 2017 |            |
|---|----------------------|-----------------|------------|-------------------|------------|
|   |                      | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| 12.5% senior secured notes (note 9)   | Level 2              | \$ 260.3        | 271.4      | \$ 260.3          | 269.1      |
| 10 <sup>3/4</sup> % Series B cumulative exchangeable redeemable preferred stock (note 10) | Level 3              | 170.4           | 38.9       | 165.6             | 38.1       |

**(b) Fair Value of FCC Broadcasting Licenses**

As discussed in Note 7, our valuations of our indefinite-lived intangibles principally use the discounted cash flow methodology which includes significant unobservable inputs and assumptions by management resulting in a Level 3 classification within the fair value hierarchy. During the quarter ended June 30, 2018, our television FCC broadcasting license with a carrying amount of \$2.8 million was written down to its implied fair value of \$2.3 million, resulting in a non-recurring impairment charge of \$0.5 million, which was included in earnings for the period.

**9. 12.5% Senior Secured Notes**

On February 7, 2012 we closed our offering of \$275 million in aggregate principal amount of our Notes, at an issue price of 97% of the principal amount. The Notes were offered solely by means of a private placement either to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, or to certain persons outside the United States pursuant to Regulation S under the Securities Act. We used the net proceeds from the offering, together with 90 cmology

### ***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

dividends, purchase junior securities and make restricted investments or other restricted payments; (ii) incur indebtedness, including refinancing indebtedness; (iii) merge or consolidate with other companies or transfer all or substantially all of our assets; and (iv) engage in transactions with affiliates. Upon a change of control, we will be required to make an offer to purchase these shares at a

equity securities that would either violate (or would result in a violation of) the Communications Act or that required prior approval of the FCC are “ineffective.” As a result, in reviewing the Preferred Holder Complaint, we believed that certain of those transfers, when

applicable accounting principles, the contingency had occurred, and the Series B preferred stock now met the definition of a “mandatorily redeemable” instrument under Accounting Standards Codification 480 “*Distinguishing Liabilities from Equity*” (“ASC 480”). Although under Delaware law the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being “conditionally redeemable” to “mandatorily redeemable,” then the financial instrument should be reclassified as a liability.

In addition, the Series B preferred stock will be measured at each reporting date as the amount of cash that would be paid pursuant to the contract, had settlement occurred on the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the accruing quarterly dividends of the Series B preferred stock is being recorded as interest expense (i.e. “Dividends on Series B preferred stock classified as interest expense”).

## 11. Assets Held for Sale

During 2016, the Company entered into a listing agreement with a broker to sell a building and related improvements in New York City, which is part of our radio segment. The property has been reclassified from building and building improvements, as well as furniture and fixtures to assets held for sale as these assets were approved for immediate sale in their present condition, were expected to be sold within one year and management was actively working to locate buyers for this building and related improvements.

After the quarter ended June 30, 2018 and pursuant to an agreement entered into by the Company, as of September 12, 2017, with 26 W. 56 LLC, the Company closed on the sale of its New York facilities with a carrying value of \$0.4 million for \$14.0 million, exclusive of closing costs, on July 19, 2018. The Company will recognize a gain on the sale of the New York facilities in the third quarter of 2018. Additionally, the sale of the New York facilities resulted in net proceeds of \$10.4 million to the Company, as defined by the Indenture governing the Notes, which is calculated differently than the recognized gain for financial reporting purposes. In order to arrive at net proceeds, as defined by the Indenture, the Company is permitted to hold back certain amounts related to taxes, relocation expenses and capital expenditures that are expected to become payable in the future. The net proceeds of \$10.4 million will be used to repay a portion of the Notes during the third quarter of 2018.

A summary of assets held for sale as of June 30, 2018 and December 31, 2017 is as follows (in thousands):

| Description                 | June 30,<br>2018 | December 31,<br>2017 |
|-----------------------------|------------------|----------------------|
| Property and equipment, net | \$ 409           | \$ 409               |
| Assets held for sale        | \$ 409           | \$ 409               |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**General Overview**

We are a leading Spanish-language media and entertainment company with radio and television operations, together with live





### ***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 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, 2018 and 2017**

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

**Three-Months Ended  
June 30,**

The following summary table presents a comparison of our results of operations for the three-months ended June 30, 2018 and 2017 (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.

|  | <b>Three-Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>June 30,</b>           |             |
|  | <b>2018</b>               | <b>2017</b> |
| Net revenue  | \$ 34,780                 | \$ 34,181   |
| Engineering and programming expenses                                 | 6,529                     | 6,818       |
| Selling, general and administrative expenses                         | 13,249                    | 16,563      |
| Corporate expenses   | 3,440                     | 2,793       |
| Depreciation and amortization  | 971                       | 1,111       |
| Gain on disposal of assets, net of disposal costs                    | —                         | (12,826)    |
| Recapitalization costs   | 1,045                     | 3,263       |
| Impairment charges   | 483                       | —           |
| Other operating income   | (50)                      | —           |
| Operating income   | 9,113                     | 16,459      |
| Interest expense, net  | (8,127)                   | (9,328)     |
| Dividends on Series B preferred stock classified as interest expense | (2,434)                   | (2,433)     |
| Income tax expense   | 550                       | 2,131       |

Operating income

Quarterly Report on Form 10-Q. Also included in these amounts are the legal and financial advisory fees paid to the ad hoc group of holders (the “Supporting Holders.”) of more than 56% of the principal amount of outstanding Notes who entered into a forbearance agreement with us on May 8, 2017. See “Liquidity and Capital Resources—12.5% Senior Secured Notes.”

*Impairment Charges*

## Comparison Analysis of the Operating Results for the Six-Months Ended June 30, 2018 and 2017

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

|  | Six-Months Ended<br>June 30, |        |
|--|------------------------------|--------|
|  | 2018                         | 2017   |
| <b>Net revenue:</b>                                  |                              |        |
| Radio  | \$ 60,530                    | 59,503 |
| Television   | 8,156                        | 6,028  |
| Consolidated   | \$ 68,686                    | 65,531 |
| <b>Engineering and programming expenses:</b>         |                              |        |
| Radio  | \$ 10,830                    | 11,871 |
| Television   | 2,430                        | 3,564  |
| Consolidated   | \$ 13,260                    | 15,435 |
| <b>Selling, general and administrative expenses:</b> |                              |        |
| Radio  | \$ 24,154                    | 28,068 |
| Television   |                              |        |

The following summary table presents a comparison of our results of operations for the six-months ended June 30, 2018 and 2017 (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,**

### ***Recapitalization Costs***

The Company incurred \$1.8 million of recapitalization costs, a decrease of \$2.3 million, primarily due to professional fees related to the current process of evaluating all options available towards executing a comprehensive recapitalization plan, as described in Note 1, Basis of Presentation, of the Notes to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Also included in these amounts are the legal and financial advisory fees paid to the Supporting Holders.

### ***Impairment Charges***

The increase in impairment charges of \$0.5 million was primarily due to an impairment of our Puerto Rico market television FCC broadcasting license.

### ***Operating Income***

The decrease in operating income of \$3.6 million or 18% was primarily due to the increase in net revenues and the decreases in operating expenses and recapitalization costs as well as not currently recognizing gains on sale of assets while recognizing an impairment of one of our television FCC broadcasting licenses.

### ***Interest Expense, net***

The decrease in interest expense of \$3.1 million or 16% was primarily due to the decrease in amortization of the originally issued discount and deferred financing costs being amortized and recorded as interest expense over the term of the Notes, which expired on April 15, 2017, as well as, a decreased amount of monthly interest payments based on a lower principal amount due on the 12.5% Senior Secured Notes.

### ***Income Tax Expense***

The decrease in income tax expense of \$3.5 million or 79% was primarily a result of a reduction of the deferred tax liabilities due to the generation of an indefinite lived deferred tax asset related to interest disallowance as a result of the Tax Cuts and Jobs Act (the "Tax Legislation").

### ***Net Loss***

The decrease in net loss was primarily due to the decreased operating income and decreases in interest and income tax expense.

### **Liquidity and Capital Resources**

The most important aspects of our liquidity and capital resources as of June 30, 2018 and, as of the date of this Quarterly Report on Form 10-Q, are as follows:

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- Our current sources of liquidity are our cash and cash equivalents which increased by \$4.6 million during the six-months ended June 30, 2018, primarily due to the cash being provided by our operations during the period. Based on current estimates and assumptions, we expect to generate a sufficient amount of cash flow from operations, during 2018, to meet our ordinary course operating obligations over the next twelve month period.
- We had a working capital deficit of \$396.2 million, primarily due to the classification of our Notes and Series B preferred stock as current liabilities.

We continue to evaluate all options to effect a successful recapitalization or restructuring of our balance sheet, including a refinancing of the Notes. Our refinancing efforts have been made more difficult and complex with the litigation with certain purported holders of our Series B preferred stock and the foreign ownership issue. We provide more information about each of these items under the headings “Our Continued Recapitalization and Restructuring Efforts;” “Special Note Regarding Forward-Looking

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***

On February 7, 2012 we closed our offering of \$275 million in aggregate principal amount of our Notes, at an issue price of 97% of the principal amount. The Notes were offered solely by means of a private placement either to qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act, or to certain persons outside the United States pursuant to Regulation S under the Securities Act. We used the net proceeds from the offering, together with some cash on hand, to repay and terminate the senior credit facility term loan, and to pay the transaction costs related to the offering. The Notes matured on April 15, 2017. Because we did not have sufficient cash on hand and did not generate sufficient cash from operations or asset sales, we did not repay the Notes at their maturity, as a result of which there was an event of default under the Indenture on April 17, 2017 (being the payment date following the Saturday, April 15, 2017 maturity date).

On May 8, 2017, the Company, and certain of its subsidiaries entered into a Forbearance Agreement with certain aand, to repay and

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 10 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.

Series B preferred stock exercised their repurchase option, but we were unable to fully repurchase the Series B preferred stock for which repurchases were requested, resulting in a continuing Voting Rights Triggering Event. During the continuation of a Voting Rights Triggering Event, certain restrictions are imposed on us, including (i) a prohibition on our ability to incur additional new indebtedness, (ii) restrictions on our ability to make restricted payments and (iii) restrictions on our ability to merge or consolidate with other companies or transfer all or substantially all of our assets. In addition, upon the incurrence and during the pendency of a Voting Rights Triggering Event, the holders of the Series B preferred stock have the right to elect two members to our Board of Directors. A Voting Rights Triggering Event shall continue until (i) all dividends in arrears shall have been paid in full and (ii) all other failures, breaches or defaults giving rise to such Voting Rights Triggering Event are remedied or waived by the holders of at least a majority of the shares of the then outstanding Series B preferred stock.

As discussed in Note 10, elsewhere in this Quarterly Report on Form 10-Q, we report dividends on the Series B preferred stock as interest expense.

For more information regarding the Series B preferred stock, see Note 10, elsewhere in this Quarterly Report on Form 10-Q.

### ***Series C Preferred Stock***

On December 23, 2004, in connection with the closing of the merger agreement, dated October 5, 2004, with CBS Radio (formerly known as Infinity Media Corporation, CBS Radio), a division of CBS Corporation, Infinity Broadcasting Corporation of San Francisco (“Infinity SF”) and SBS Bay Area, LLC, a wholly owned subsidiary of SBS, pursuant to which SBS acquired the FCC license of Infinity SF (the “CBS Radio Merger”), we issued to CBS Radio an aggregate of 380,000 shares of Series C convertible preferred stock, \$0.01 par value per share in exchange for the acquisition of all the rights and obligations of Infinity SF, including the FCC license of Infinity SF for radio station 93.3 FM, serving the San Francisco, California market. The shares of Series C preferred stock issued at the closing of the CBS Radio Merger are convertible into 760,000 shares of Class A common stock, subject to certain adjustments. In connection with the CBS Radio Merger, we also entered into a registration rights agreement with CBS Radio, pursuant to which CBS Radio may instruct us to file up to three registration statements, on a best efforts basis, with the SEC, providing for the registration for resale of the Class A common stock issuable upon conversion of the Series C preferred stock.

In connection with the issuance of the Series C preferred stock, we entered into a Stockholder Agreement, dated October 5, 2004, with CBS Radio and Mr. Alarcón. Pursuant to the terms of the Stockholder Agreement, CBS Radio was given a right of first negotiation with respect to any radio station that we control in the New York and Miami markets after the date of such agreement. The negotiation right is required to stay open for a period of ten (10) business days. In addition, CBS Radio was also given a right to match any offer received by us with respect to any Miami radio station. Such matching right expired one year after the date of the Stockholder Agreement.

We are required to pay holders of Series C preferred stock dividends on parity with our Class A common stock and Class B common stock, and each other class or series of our capital stock created after December 23, 2004. The Series C preferred stock holders have the same voting rights and powers as our Class A common stock on an as-converted basis, subject to certain adjustments.

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

As of June 30, 2018, we had 4,216,991 shares of Class A ~~common stock outstanding.~~

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

As of June 30, 2018, 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, 2018 and 2017, 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.

|   | Six-Months Ended |            | Change<br>\$ |
|---|------------------|------------|--------------|
|   | June 30,         |            |              |
|   | 2018             | 2017       |              |
| Capital expenditures:                                     |                  |            |              |
| Radio   | \$ 873           | \$ 313     | 560          |
| Television  | 74               | 67         | 7            |
| Corporate   | 34               | 70         | (36)         |
| Consolidated  | \$ 981           | \$ 450     | 531          |
| Net cash flows provided by (used in) operating activities | \$ 5,401         | \$ (6,071) | 11,472       |
| Net cash flows (used in) provided by investing activities | (831)            | 13,411     | (14,242)     |
| Net cash flows used in financing activities               | —                | (14,941)   | 14,941       |
| Net increase (decrease) in cash and cash equivalents      | \$ 4,570         | \$ (7,601) |              |



Based on our assessment, we consider that the material weakness related to the process of detecting ownership changes related to Section 382 has not been fully remediated and is still present as of June 30, 2018 as the remedial measures have not operated effectively for a sufficient period of time for management to conclude, through testing, that the applicable controls have operated effectively for a sufficient period of time.

*Changes In Internal Control Over Financial Reporting.* In March 2018, management concluded that a control deficiency with respect to the design of controls related to the detection of ownership changes related to Section 382 of the Internal revenue Code constituted a material weakness in internal control over financial reporting and that our disclosure controls and procedures were not and would not be deemed effective until such time that the deficiency was considered remediated.

As previously discussed, management revised its policies and procedures with respect to controls over the process of detecting ownership changes related to Sections 382. Except for the material weaknesses we identified and the remedial measures we have implemented, as described above, there has been no change in our internal control over financial reporting during the quarter ended June 30, 2018 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 6, 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 9, 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<br/>Number</b> | <b>Exhibit Description</b>  |
|---------------------------|---|
| 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**