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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from ________ to ________

Commission file number 000-27823

Spanish Broadcasting System, Inc.
(Exact name of registrant as specified in its charter)

Delaware

SPANISH BROADCASTING SYSTEM, INC.

INDEX

Explanatory Note

As disclosed in a Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC"), on April 29, 2020, we delayed the filing of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, because the novel coronavirus disease pandemic, known as COVID-19 ("COVID-19"), had a negative impact on the Company's ability to complete the normal closing processes and internal reviews that are required to timely file the Form 10-Q.

Due to the impact of the COVID-19 pandemic, our key employees were limited in conducting normal business activities, including the preparation and review of this Quarterly Report on Form 10-Q. In following the recommendations of governmental health authorities to minimize exposure risk for our employees, we had most employees work remotely. We also had to furlough some employees. As a result of our reduced workforce, the limited size of our accounting staff, limited access to our facilities and certain technology systems that our staff relies on to prepare our Form 10-Q, we experienced difficulties in completing the normal closing processes and internal reviews that are required to timely file the Form 10-Q. In addition, these restrictive measures and the economic impacts of the COVID-19 pandemic required additional time for us to assess the impact of COVID-19 on our operations, financial position and cash flows.

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)

Assets	March 31, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 36,600	$ 20,856
Receivables:		
Trade	35,615	40,394
Barter	141	197
	35,756	40,591
Less allowance for doubtful accounts	1,277	1,122
Net receivables	34,479	39,469
Prepaid expenses and other current assets	7,848	7,475
Assets held for sale	—	12,474
Total current assets	78,927	

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three-Months Ended March 31, 2020	Three-Months Ended March 31, 2019
Net revenue	$ 36,275	$ 37,355
Operating expenses:		
Engineering and programming	7,674	7,031
Selling, general and administrative	18,241	19,254
Corporate expenses	2,824	2,751
Depreciation and amortization	846	873
Total operating expenses	29,585	29,909
Gain on disposal of assets, net of disposal costs	(3,186)	(36)
Recapitalization costs	1,684	1,930
Impairment charges	14,103	—
Other operating income	—	(17)
Operating (loss) income	(5,911)	5,569
Other expense:		
Interest expense, net	(7,916)	(7,807)

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Three-Months Ended March 31, 2020	2019
Cash flows from operating activities:		
Net loss	$ (14,330)	$ (3,932)

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 March 31, 2020 and December 31, 2019 and for the three-month periods ended March 31, 2020 and 2019 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, 2019, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as filed by the Company on March 30, 2020 (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 March 31, 2020 through the financial statements issuance date. The results of operations for the three-months ended March 31, 2020 are not necessarily indicative of the results for the entire year ending December 31, 2020, or for any other future interim or annual periods.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern, and do not include any many of the Company’s advertisers’ businesses thereby impacting the Company’s core source of revenue, which has had a material impact on its operations and financial condition. The impact of COVID-19 on the capital markets could also impact the Company’s

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, the realization of deferred tax assets, the useful lives and future cash flows used for testing the recoverability of property and equipment, the recoverability of FCC broadcasting licenses, and goodwill, the recoverability of right-of-use assets, the fair value of Level 2 and Level 3 financial instruments which include the Series B preferred stock, production tax credits, the assessment as to whether it is reasonably certain that we will exercise our options to extend lease terms when available, the present value of lease payments used to calculate our lease liabilities and related right-of-use assets which includes the use of estimated incremental borrowing rate ("IBR"), contingencies and litigation. These estimates and assumptions are based on management's best judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions as facts and circumstances dictate.

We assessed these aforementioned estimates and judgments utilizing information reasonably available to us and considering the unknown future impacts of the COVID-19 pandemic and the declining performance for total market revenues in our radio and television markets, we performed an interim impairment test as of March 31, 2020 of our goodwill and FCC broadcasting radio and television FCC broadcasting licenses. As a result of the interim impairment test, we determined that there was no impairment to goodwill, however, there was an impairment to our radio FCC broadcasting licenses, primarily due to the discount rate increase and lower industry advertising revenue growth projections in the subject markets. We recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses. Actual results could differ from these estimates.

The COVID-19 pandemic continues to create significant uncertainty and disruption in the global economy and financial markets. It is reasonably possible that these uncertainties could materially impact our estimates related to, but not limited to, revenue recognition, broadcast licenses, goodwill and income taxes. As a result, many of our estimates and assumptions require increased judgment and carry a higher degree of variability and volatility. Our estimates may change as new events occur and additional information emerges, and such changes are recognized or disclosed in our consolidated financial statements.

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 standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. We have adopted the new standard effective January 1, 2020 with no material impact on our financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40) – Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract,* which provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We have adopted the new standard effective January 1, 2020 with no material impact on our financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* which modifies the disclosure requirements to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The guidance eliminates the requirement to disclose the valuation process for Level 3 fair value measurements. The methodology used to arrive at the fair value of the Series B preferred stock results in a Level 3 classification. The

Company has adopted this ASU, effective January 1, 2020 with no impact on our financial position or results of operations and has updated its disclosures in accordance with the requirements of this ASU.

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 adopted this ASU, effective January 1, 2020 with no impact on our financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments* which introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables and held-to-maturity debt securities, which will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands disclosure requirements and will be applied using the modified-retrospective approach. In February 2020, the FASB issued ASU No. 2020-02, *Financial Instruments—Credit Losses (Topic 326)*, which delayed the effective date for smaller reporting public companies until fiscal years beginning after December 15, 2022. Early adoption is permitted as of the fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. The Company has not currently adopted this ASU. Based on our preliminary assessment, the Company does not expect the adoption of this update to have a material impact on our financial position, results of operations or cash flows.

2. Revenue

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:

Nature of Products and Services

(a) Local, national, digital and network advertising

Local and digital revenues generally consist of advertising airtime sold in a station's local market, the Company's La Musica

3. 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 income per common share is computed by giving effect to common stock

5. Operating Segments

We have two reportable segments: radio and television.

	Three-Months Ended March 31,	
	2020	2019
Capital expenditures:		

November 2, 2017, which was subsequently amended. The amended complaint (the “Preferred Holder Complaint”) alleges counts for breach of contract, breach of the implied covenant of good faith and fair dealing and specific performance regarding the Certificate of 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 and for a declaratory judgment regarding the validity of a provision of the Charter regarding

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

		March 31, 2020		December 31, 2019	
Description	Fair Value Hierarchy	Carrying	Fair	Carrying	Fair

Although our secured leverage ratio was greater than 4.75 to 1.00, we recorded positive consolidated station operating income for our television segment for the most recent twelve-month period ending December 31, 2019.

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 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 F10 T(onTJ ET r0.6649993 42onTJ Ef5abroadcaents)] TJ 11243restr.687o;d

Holders of the Series B preferred stock have customary protective provisions. The Certificate of Designations governing the Series B preferred stock (the "Certificate of Designations") contains covenants that, among other things, limit our ability to: (i) pay 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 price of 101% of the aggregate liquidation preference of these shares plus accumulated and unpaid dividends to, but excluding the purchase date.

We had the option to redeem all or some of the registered Series B preferred stock for cash on or after October 15, 2009 at 103.583%, October 15, 2010 at 101.792% and October 15, 2011 and thereafter at 100%, plus accumulated and unpaid dividends to the redemption date. On October 15, 2013, each holder of Series B preferred stock had the right to request that we repurchase (subject to the legal availability of funds under Delaware General Corporate Law) all or a portion of such holder's shares of Series B preferred stock at a purchase price equal to 100% of the liquidation preference of such shares, plus all accumulated and unpaid dividends (as described in more detail below) on those shares to the date of repurchase. Under the terms of our Series B preferred stock, we are required to pay dividends at a rate of 10 3/4% per year of the $1,000 liquidation preference per share of Series B preferred stock. From October 30, 2003 to October 15, 2008, we had the option to pay these dividends in either cash or additional shares of Series B preferred stock. During October 15, 2003 to October 30, 2008, we increased the carrying amount of the Series B preferred stock by approximately $17.3 million for stock dividends, which were accreted using the effective interest method. Since October 15, 2008, we have been required to pay the dividends on our Series B preferred stock in cash.

On October 15, 2013, holders of shares of our Series B preferred stock requested that we repurchase 92,223 shares of Series B preferred stock for an aggregate repurchase price of $126.9 million, which included accumulated and unpaid dividends on these shares as of October 15, 2013. We did not have sufficient funds legally available to repurchase all of the Series B preferred stock for which

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 persons, we were required to take immediate remedial action in order to ensure that any 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 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 proper 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 foreign ownership to enable the Company to supplement Petition with this additional information. On March 23, 2018, counsel for the purported holders of most of the Series B preferred stock filed a letter with the FCC supplying a significant portion of the information requested. The Company reviewed this information in order to determine whether it was complete, true and correct, as required by the FCC's rules, and requested some additional information from the Series B preferred stockholders. The purported Series B preferred stockholders did not provide any additional information regarding the timing of their alleged purchases of Series B preferred stock until December 5, 2018. On that date, such stockholders filed responses to the Company's interrogatories in the Series B Preferred Stock Litigation. These responses contained a significant portion of the pending information that was originally solicited on November 2017 and January 2018, respectively. The new information mainly consisted of the trading information in the Series B preferred stock, including dates of acquisition, the number of shares purportedly acquired in each transaction and, to the extent available, seller information. On December 6, 2018, the Company received a letter from the Enforcement Bureau of the Investigations and Hearings Division (the "Bureau") of the FCC advising the Company that it was under investigation for potential violations of Section 310(b) of the Communications Act related to excess foreign ownership of broadcast stations. As part of its investigation, the Bureau requested of the Company detailed information and supporting documentation about the identities of the Series B preferred stockholders, the potential for a foreign ownership violation, the dates that the Company became aware of the situation, and the steps it took to address the situation. The Company timely filed our response to the Bureau's letter of inquiry on February 8, 2019. On May 6, 2020, the Bureau informed the Company that it is no longer pursuing its investigation.

Previously, on April 27, 2018, the Company had announced publicly that the purported foreign ownership excess did not exist. On this date, the Company issued Notices of Ineffective Purported Purchase of Series B Preferred Stock (the "Notices") to each of West Face Long Term Opportunities Global Master L.P., Stornoway Recovery Fund LP, Stonehill Master Fund Ltd. and Ravensource Fund notifying these investors that their claimed purchases of Series B preferred stock would be treated as void and non-existent because these investors attempted to acquire these shares in transactions that, if given effect, would have violated the Charter. In the Notices, the Company invited these investors to demonstrate facts to the contrary supported by relevant documentation. However, these investors have not provided the Company with any facts or provided any documentation that would support a different legal conclusion.

As stated above, the Company takes the position that certain of the purported non-U.S. preferred stockholders do not currently hold valid equity interests in the Company, with the result that there is no foreign ownership excess. For this reason, the Company did not claim in its Petition or any supplement thereto that it would be in the public interest for the relevant entities to hold aggregate interests exceeding the 25 percent foreign ownership benchmark. As stated in the original Petition, the Company then recognized that its showing "is not yet complete with respect to the FCC's ability to render a decision regarding the … public interest inquiry." Because the share transfers that gave rise to some or all of the Series B preferred stock ownership claims of several purported non-U.S. preferred stockholders are invalid, there would be no need for such a showing unless a court first determines that the suspect transactions must be honored. Accordingly, both the Company and the purported Series B preferred stockholders have suggested that the FCC should consider simply holding the Petition in abeyance until the Series B Preferred Stock Litigation is resolved. On May 7, 2020, the Company notified the FCC that it was withdrawing the Petition.

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 address these questions in the pending Chancery Court action.

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 ¾% 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 March 31, 2020, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately $96.9 million, which is accrued on our condensed consolidated balance sheet as 10 ¾% Series B cumulative exchangeable redeemable preferred stock.

Accounting Treatment of the Preferred Stock

The Series B preferred stock will be measured at subsequent reporting dates at the amount of cash that would be paid under the conditions specified in the contract, as if the settlement occurred at the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the 10 ¾% accruing quarterly dividends will be recorded as interest expense (i.e. "Dividends on Series B preferred stock classified as interest expense") as required by ASC 480. For the three-months ended March 31, 2020 and 2019, we recorded $2.4 million as dividends on Series B preferred stock classified as interest expense.

11. Assets Held for Sale and Gain on Disposition of Assets

On January 21, 2020, the Company entered into an asset purchase agreement with KHOU-TV, Inc. to sell various assets related to our Houston, KTBU television operations for $15 million, exclusive of closing costs, and subsequently closed on the sale on March 23, 2020. The Company recognized a gain on the sale of the KTBU assets of $3.2 million. Although the Company has historically used net proceeds from the sale of assets, as described by the Indenture, to repay a portion of the Notes, as of July 6, 2020, the Company is in an ongoing discussion with the holders of our Notes regarding the uses and/or payment of these proceeds.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 205-20-45, Discontinued Operations, a disposal of a component of an entity shall be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on the entity's operations and financial results. Management determined that the disposition did not represent a strategic shift that will have a major effect on the Company's operations and financial results, therefore the operations in the Houston, TX, market were not reported as discontinued operations. Operating income for the Company's Houston station was $0.3 million for the year ended December 31, 2019.

A summary of assets held for sale as of March 31, 2020 and December 31, 2019 is set forth below (in thousands):

	March 31, 2020	December 31, 2019
FCC broadcasting licenses	$ —	$

in the Company's radio and television markets, the Company determined that a triggering event had occurred. The Company performed an interim impairment test as of March 31, 2020 of its FCC broadcasting radio licenses in New York, Los Angeles, Miami, Chicago, San Francisco and Puerto Rico, as well as its Miami and Puerto Rico FCC television broadcasting license.

The Company performs 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, lacks inherent goodwill and whose only other assets have essentially been paid for as part of the build-up process. Consequently, the resulting accretion in value is solely attributed to the FCC broadcasting license.

In the discounted cash flow projections, a ten years period is deemed an appropriate time period for the analysis. The yearly cash flow streams were adjusted to present value using an after-tax discount rate calculated for the radio and television broadcast industries as of March 31, 2020. Additionally, it is necessary to project the terminal value at the end of the ten-year projection period. The terminal value represents the hypothetical value of the licenses at the end of a ten-year period. An estimated amount of taxes are deducted from the assumed terminal value, which accordingly is discounted to net present value.

The key assumptions incorporated in the discounted cash flow model are market revenue projections, market revenue share projections, anticipated operating profit margins and risk adjusted discount rates. These assumptions vary based on the market size, type of broadcast signal, media competition and audience share. These assumptions primarily reflect industry norms for similar stations/broadcast signals, as well as historical performance and trends of the markets. In the preparation of the FCC broadcasting license appraisals, estimates and assumptions are made that affect the valuation of the intangible asset. These estimates and assumptions could differ from actual results and could have a material impact on our financial statements in the future.

The methodology used by the Company in determining its key estimates and assumptions was applied consistently to the subject markets. Below are some of the key assumptions used in the Company's impairment assessment using significant unobservable inputs (Level 3 non-recurring fair value measure).

	Radio FCC Licenses March 31, 2020	Television FCC Licenses March 31, 2020
Discount Rate	10.5%	11.0%
Long-term Revenue Growth Rate	0.1% - 0.8%	1.0%
Mature Market Share	3.0% - 18.0%	2.0% - 2.9%
Mature Operating Profit Margin	28.0% - 33.6%	24.0%

As a result of the interim impairment test, the Company determined that there was an impairment to its radio FCC broadcasting licenses in San Francisco, Chicago, Miami, New York and Puerto Rico, primarily due to the discount rate increase and lower industry advertising revenue growth projections in the subject markets due to COVID-19. The Company recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses.

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 concerts and events, mobile, digital and interactive media platforms, which reach the growing U.S. Hispanic population, including Puerto Rico. We produce and distribute original Spanish-language content, including radio programs, television shows, music and live entertainment through our multi-media platforms. We operate in two reportable segments: radio and television.

We own and operate radio stations located in six of the most populous Hispanic markets in the United States: Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco. The Los Angeles and New York markets have the largest and second largest Hispanic populations and are also the largest and second largest radio markets in the United States measured by advertising revenue, respectively. We format the programming of each of our radio stations to capture a substantial share of the Hispanic audience in their

Impact of the COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The responses by

- *Special events revenue.* We generate special events revenue from ticket sales, as well as profit-sharing arrangements by producing or co-producing live concerts and events promoted by our radio and television stations. For the three-months ended March 31, 2020 and 2019, special events revenue comprised 16% and 17% of our gross revenues, respectively.
- *Other revenue.* We receive other ancillary revenue such as subscriber revenue paid to us by cable and satellite providers, rental income from renting available tower space or sub-channels and syndication revenue from licensing MegaTV content. For the three-months ended March 31, 2020 and 2019, other revenue comprised 2% and 4% of our gross revenues, respectively.

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 Ende $ 020 and 2019

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

	nths Ended March 31,	
	2020	2019
Net revenue:		
Radio	$ 32,533	$ 34,079
Television	3,742	3,276
Consolidated	$ 36,275	$ 37,355
Engineering and programming expenses:		
Radio	$ 5,608	$ 5,481
$ 16,668	2,066	1,550
Consolidated	$ 7,674	$ 7,031
Selling, general and administrative expenses:		
Radio	$ 16,668	$ 17,666
Television	1,573	1,588
Consolidated	$ 18,241	$ 19,254
Corporate expenses:	$ 2,824	$ 2,751
Depreciation and amortization:		
Radio	$ 440	$ 376
Television	349	444
Corporate	57	53
Consolidated	$ 846	$ 873
$Gain on disposal of assetss		

The following summary table presents a comparison of our results of operations for the three-months ended March 31, 2020 and 2019 (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.

	Three-Months Ended March 31,	
	2020	**2019**
Net revenue	$ 36,275	$ 37,355
Engineering and programming expenses	7,674	7,031

- We had a working capital deficit of $382.2 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 $187.5 million, our adjusted working capital deficit totals $194.7 million.

The Certificate of Designations provided holders the right, on October 15, 2013, to require us to repurchase their shares, subject to the legal availability of funds. At the option of the holder, we were required to repurchase the Series B preferred stock at a purchase price equal to 100% of the liquidation preference, or $1,000 per share, plus accrued and unpaid dividends. Certain holders of the 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 to the unaudited condensed consolidated financial statements included 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 to the unaudited condensed consolidated financial

Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the three-months ended March 31, 2020 and 2019, 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.

	Three-Months Ended March 31,		**Change**
	2020	**2019**	$
Capital expenditures:			

Critical Accounting Policies

The key assumptions for the respective markets are further described as follows:

Market Revenue Projections. Revenues are based on estimates of market revenues gathered from various third-party sources. Total market revenues for 2020 were determined based on this data and market revenues were forecast over the 10-year projection period to reflect the expected long-term growth rates for the broadcast industry and each market. Over the 10-year projection period, revenue growth rates have been projected to return to growth rates equal to the expected long-term growth rate in each market. The long-term growth rates have been estimated based on historical and expected performance in each market. In determining revenue growth rates in each market, revenue growth forecasts from various industry analysts are reviewed and analyzed.

Market Revenue Share Projections. Market revenue share projections are based upon the most recent average adjusted audience share for comparable stations operating in each market. This assumption is not specific to the performance of our stations and is predicated on the expectation that a new entrant into the market could reasonably be expected to perform at a level similar to the average competitor, assuming that competitor had similar technical facilities.

Anticipated Operating Profit Margins. Operating profits are defined as profit before interest, depreciation and amortization, income tax, and corporate allocation charges. Operating profits are then divided by broadcast revenues, net of agency and representative commissions, to compute the operating profit margin. Operating profit margins for each station are projected based upon industry operating margin norms, which reflect market size and station type. In determining operating profit margins in each market, third-party information is utilized. This assumption is not specific to the performance of our stations and is predicated on the expectation that a new entrant into the market could reasonably be expected to perform at a level similar to a typical competitor.

Risk Adjusted Discount Rates. Discount rates of 10.5% for radio licenses and 11.0% for television licenses were used to calculate the present value of the net after-tax cash flows. The discount rates are based on an after-tax rate determined using the weighted average cost of capital model as of March 31, 2020. The discount rates are not specific to us or to the stations, but are based upon the expected rates that would be used by a typical market participant, which include a risk premium.

These key assumptions are subject to such factors as: overall advertising demand, station listenership and viewership, audience tastes, technology, fluctuation in preferred advertising media and the estimated cost of capital. Since a number of factors may influence the determination of the fair value of our FCC broadcasting licenses, we are unable to predict whether impairments will occur in the future. Any significant change in these factors will result in a modification of the key assumptions, which may result in an impairment.

For example, changes in the discount rates will significantly impact our impairment testing. We note that a 100 basis point increase in the discount rates would result in an impairment of $47.7 million and that a decrease of 100 basis points in the long term growth rate would result in an impairment of $38.8 million.

The table below presents the percentage within which the fair values of our broadcasting licenses fall relative to their carrying value as of March 31, 2020 for 8 units of accounting (i.e. markets).

	Percentage Range by which the Fair Value Exceeds the Carrying Value for the Units of Accounting as of March 31, 2020		
	0% to 5%	**Greater than 5% to 15%**	**Greater than 15%**
Number of units of accounting	6	2	—
Carrying value (in thousands)	$ 281,029	$ 16,149	$ —

In addition to conducting our annual impairment testing, at each interim reporting period we perform a qualitative assessment for each unit of accounting for triggering events that could indicate impairment to our FCC broadcasting licenses. In this assessment, we consider the qualitative factors that are outlined in FASB ASC 350-30-35-18B, which include, but are not limited to, the state of the economy, advertising demand, market conditions, broadcasting industry future growth rates, regulatory matters and technology. During the first quarter of 2020, as a result of the interim impairment test, we determined that there was an impairment to several of our radio FCC broadcasting licenses in San Francisco, Chicago, Miami, New York and Puerto Rico, primarily due to lower industry advertising revenue growth projections in the subject markets. We recorded a non-cash impairment loss of approximately $14.1 million that reduced the carrying value of such FCC broadcasting licenses. Outside of these radio FCC broadcasting license impairments totaling $14.1 million, there were no other impairments of our FCC broadcasting licenses as tested for impairment for the quarter ended March 31, 2020.

Goodwill consists of the excess of the purchase price over the fair value of tangible and identifiable intangible net assets

Item 1A. Risk Factors

The risk factors disclosed in our Annual Report should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and should not be considered the only risks to which we are exposed. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Annual Report. In addition to the risk factors discussed below, the impact of COVID-19 may also exacerbate other risks discussed in Item 1A. Risk Factors in our Annual Report, any of which could have a material effect on us. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Annual Report.

The COVID-19 pandemic has adversely affected and could continue to adversely affect our business, financial position, results of operation, liquidity and cash flows.

The COVID-19 pandemic is adversely affecting, and is expected to continue to adversely affect, our operations and financial condition. It has also impacted many of our advertisers, which have temporarily suspended operations, thereby impacting our core source of revenue. Our advertising revenue, and in particular cash advertising sales, makes up the majority of our revenue, and, like other radio and TV broadcast companies and similar businesses that depend on advertising spend, we are experiencing a decline in this revenue stream due to the COVID-19 pandemic. In response to this current health crisis, governmental authorities have imposed certain restrictions, including travel bans and recommendations on the limitation of social gatherings, which have directly impacted our ability to continue producing concerts and special events while those restrictions remain in place. Following a series of orders issued in our markets, New York, Los Angeles, Puerto Rico, Miami, Chicago and San Francisco, we have had to cancel events until further notice, which has reduced revenue and had a negative impact given the importance of these events to our audience and advertisers. In addition, our radio and TV station operations have been affected. Although our physical locations remain open, there is limited access and our employees are working remotely, with only certain essential employees working on site. For employees working at our facilities, we have instituted social distancing protocols, increased the level of cleaning and sanitizing and undertaken

The valuation of our FCC licenses and goodwill is based on estimates rather than precise calculations. The fair value measurements for both our FCC licenses and goodwill use significant unobservable inputs which reflect our own assumptions about the estimates that market participants would use in measuring fair value including assumptions about risk. Since a number of factors may influence the fair value of our intangible assets, we are unable to predict whether impairments of goodwill or other indefinite lived intangibles will occur in the future. If actual future results are not consistent with the assumptions and estimates used, we may be exposed to impairment charges in the future, which would result in our recognizing a corresponding operating loss, which could have an adverse effect on our business, financial condition and results of operations. From time to time in the past, we have incurred significant impairment charges, which have materially adversely affected our results of operations.

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:

Exhibit Number	Exhibit Description
10.48*	Loan Agreement dated April 15, 2020 by and between City National Bank of Florida, a National Banking Association, and Spanish Broadcasting System, Inc.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	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.
32.2**	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.
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: July 6, 2020