



**SPANISH BROADCASTING SYSTEM, INC.**

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## Special Note Regarding Forward-Looking Statements

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

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

“Forward-looking” statements, as such term is defined by the Securities Exchange Commission (the “SEC”) in its rules, regulations and releases, represent our expectations or beliefs, including, but not limited to, statements concerning our operations, economic performance, financial condition, our recapitalization and restructuring efforts, growth and acquisition strategies, investments and future operational plans. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “forecast,” “seek,” “plan,” “predict,” “project,” “could,” “estimate,” “might,” “continue,” “seeking” or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. These statements, by their nature, involve substantial risks and uncertainties, certain of which are beyond our control, and actual results may differ materially depending on a variety of important factors, including, but not limited to, those identified in our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the SEC on May 23, 2018 (the “Annual Report”), and those described from time to time in our future reports filed with the SEC. All forward-looking statements made herein are qualified by these cautionary statements and risk factors and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. These risks and uncertainties include the following factors:

- *Our failure to repay our 12.5% Senior Secured Notes due 2017 (the “Notes”) at maturity and our 10 3/4% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”) adversely affects our financial condition and raises substantial doubt about our ability to continue as a going concern;*
- *Risks relating to the existence of the Voting Rights Triggered by the 10 3/4% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”);*

- *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;*
- *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)

Assets	March 31, 2018	December 31, 2017
<b>Current assets:</b>		
Cash and cash equivalents	\$ 20,082	\$ 16,141
<b>Receivables:</b>		
Trade	27,415	32,046
Barter	200	288
	27,615	32,334
Less allowance for doubtful accounts	1,437	1,529
Net receivables	26,178	30,805
Prepaid expenses and other current assets	9,255	8,055
Total current assets	55,515	55,001
Property and equipment, net of accumulated depreciation of \$62,362 in 2018 and \$61,502 in 2017	22,675	23,464
FCC broadcasting licenses	322,197	322,197
Goodwill	32,806	32,806
Other intangible assets, net of accumulated amortization of \$1,236 in 2018 and \$1,212 in 2017	1,312	1,336
Assets held for sale	409	409
Other assets	678	691
Total assets	\$ 435,592	\$ 435,904
<b>Liabilities and Stockholders' Deficit</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 19,504	\$ 18,763
Accrued interest	1,797	1,797
Unearned revenue	710	715
Other liabilities	11	11
12.5% senior secured notes (note 8)	260,274	260,274
10 3/4% Series B cumulative exchangeable redeemable preferred stock outstanding and dividends outstanding, \$0.01 par value, liquidation value \$1,000 per share. Authorized 280,000 shares: 90,549 shares issued and outstanding at March 31, 2018 and December 31, 2017 and \$77,465 and \$75,032 of dividends payable as of March 31, 2018 and December 31, 2017, respectively.	168,014	165,581

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

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

	Three-Months Ended	
	March 31,	
	2018	2017
Net revenue	\$ 33,906	\$ 31,350
Operating expenses:		
Engineering and programming	6,731	8,617
Selling, general and administrative	14,888	14,487
Corporate expenses	2,963	2,444
Depreciation and amortization	1,025	1,132
Total operating expenses	25,607	26,680
Gain on the disposal of assets, net of disposal costs	—	(1)
Recapitalization costs	711	826
Other operating income	(1)	—
Operating income	7,589	3,845
Other expense:		
Interest expense, net	(8,138)	(9,987)
Dividends on Series B preferred stock classified as interest expense	(2,433)	(2,433)
Loss before income taxes	(2,982)	(8,575)
Income tax expense	387	2,263
Net loss	\$ (3,369)	\$ (10,838)
Basic and Diluted net loss per common share	\$ (0.46)	\$ (1.49)
Weighted average common shares outstanding:		
Basic and Diluted	7,300	7,267
Net loss	\$ (3,369)	\$ (10,838)
Other comprehensive income, net of taxes	—	10
Total comprehensive loss	\$ (3,369)	\$ (10,828)

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

Unaudited Condensed Consolidated Statement of Changes in Stockholders' Deficit

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

Unaudited Condensed Consolidated Statements of Cash Flows  
(In thousands)

<b>Three-Months Ended</b>	
<b>March 31,</b>	
<b>2018</b>	<b>2017</b>



**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, 2018 and December 31, 2017 and for the three-month periods ended March 31, 2018 and 2017 have been prepared in accordance with U.S. generally accepted accounting

In the event we are unsuccessful in these efforts and one or more Noteholders seek to exercise remedies against us or our assets, we may be required to seek protection under Chapter 11 of the U.S. Bankruptcy Code, among other things, in order to maximize the value of our company for all of our constituents. While we believe that a Chapter 11 filing may create an avenue to successfully execute on our strategy, such a filing may also have several negative consequences to our business, including the costs and negative publicity that surrounds such a filing, reduced advertising revenue due to the uncertainty surrounding the filing, the potential need to 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

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*:

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 ended March 31, 2018 and 2017 (in thousands):

<b>Three-Months Ended</b>	<b>March 31,</b>
<b>2018</b>	<b>2017</b>

## *Nature of Products and Services*

### **(a) Local, national and digital advertising**

Local and digital revenues generally consist of advertising airtime sold in a station's local market, our La Musica application or our websites either directly to the advertiser or through an advertiser's agency. Local revenue includes local spot sales, integrated sales, sponsorship sales and paid-programming (or infomercials). National revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by an outside national representation firm, which serves as an agent in these transactions. Revenues from national advertisers are presented as net of agency commissions as this is the amount that the Company expects to be entitled to receive in exchange for these services and entitled to under the contract.

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

### **(b) Network advertising**

Network revenue generally consists of advertising airtime sold on AIRE Radio Networks platform by network sales staff.

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

### **(c) Special events**

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

The Company enters into Special Events contracts in which a customer may purchase a combination of advertising and services. These contracts include multiple promises that the Company evaluates to determine if the promises are separate performance obligations. Once the Company determines the performance obligations and the transaction price, including estimating the amount of variable consideration, the Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method or using the variable consideration allocation exception if the required criteria are met. The corresponding revenues are recognized as the related performance obligations are satisfied, which may occur over time (i.e. term marketing agreement) or at a point in time (i.e. event commencement).

### **(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**

Other revenue consists of syndication revenue, subscriber revenue and other revenue. Syndication revenue is recognized from licensing various MegaTV content and is payable on a usage-based model. Subscriber revenue is payable in a per subscriber form from cable and satellite providers. Other revenue consists primarily of renting available tower space or sub-channels.

The Company considers signed license or subscriber agreements to be the contract with a customer for the sale of syndicated or subscriber related content. For each contract, the Company considers making content available to the customer to be the identified performance obligation. The price as specified on a counterparty's agreement, which is generally stated on a per user basis, 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 on a month-to-month basis. Other revenues related to renting tower space are recognized in accordance with ASC 840 - Leases.

### ***Significant Judgments***

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

### ***Contract Balances***

\$0.2 million of local, national and digital revenue was recognized during the three months ended March 31, 2018 that was included in the unearned revenue balances at the beginning of the period. \$0.1 million of special events revenue was recognized during the three months ended March 31, 2018 that was included in the unearned revenue balances at the beginning of period. \$0.1 million of barter revenue was recognized during the three months ended March 31, 2018 that was included in the unearned revenue balances at the beginning of period. Network and other revenue recognized in the same period from unearned revenue balances at the beginning of the period were not significant.

### ***Transaction Price Allocated to the Remaining Performance Obligation***

The Company has elected to use the optional exemption in ASC 606-10-50-14 with regard to disclosing balances associated with remaining performance obligations. Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less, contracts where revenue is recognized as invoiced and contracts with variable consideration related to undelivered performance obligations, is not material.

#### 4. Operating Segments

We have two reportable segments: radio and television.

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

	Three-Months Ended March 31,	
	2018	2017
<b>Net revenue:</b>		

	March 31, 2018	December 31, 2017
<b>Total Assets:</b>		
Radio	\$ 378,893	\$ 378,472
Television	53,727	54,836
Corporate	2,972	2,596







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 9 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;
-





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”).

#### 10. 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.

Pursuant to an agreement entered into by the Company, as of September 12, 2017, with 26 W. 56 LLC, the Company expects to sell its New York facilities with a carrying value of \$0.4 million for \$14.0 million, exclusive of closing costs, and is expected to close during the third quarter of 2018. The Company will repay a portion of the outstanding Notes with the resulting net proceeds, as defined by the indenture governing our Notes (the “Indenture”). The net proceeds are calculated differently than the gain that will be recognized for financial reporting purposes at the time of closing.

As related to the New York asset sale, and 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 will be used to repay a portion of the outstanding indebtedness on our Notes.

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

Description	March 31, 2018	December 31, 2017
Property and equipment, net	\$ 409	\$ 409
Assets held for sale		

## **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 eight 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

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

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

***Net Revenue Description and Factors***



- *Other revenue.* We receive other ancillary revenue such as syndication revenue from licensing various MegaTV content, subscriber revenue paid to us by cable and satellite providers, and rental income from renting available tower space or sub-channels. For the three-months ended March 31, 2018 and 2017, other revenue comprised 5% 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 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.*

## Comparison Analysis of the Operating Results for the Three-Months Ended March 31, 2018 and 2017

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

	Three-Months Ended March 31,	
	2018	2017
<b>Net revenue:</b>		
Radio	\$ 29,251	\$ 28,224
Television	4,655	3,126
Consolidated	<u>\$ 33,906</u>	<u>\$ 31,350</u>
<b>Engineering and programming expenses:</b>		
Radio	\$ 5,465	\$ 6,199
Television	1,266	2,418
Consolidated	<u>\$ 6,731</u>	<u>\$ 8,617</u>
<b>Selling, general and administrative expenses:</b>		
Radio	\$ 12,157	\$ 13,136
Television	2,731	1,351
Consolidated	<u>\$ 14,888</u>	<u>\$ 14,487</u>
<b>Corporate expenses:</b>		
	<u>\$ 2,963</u>	<u>\$ 2,444</u>
<b>Depreciation and amortization:</b>		
Radio	\$ 427	\$ 476
Television	537	559
Corporate	61	97
Consolidated	<u>\$ 1,025</u>	<u>\$ 1,132</u>
<b>Gain on the disposal of assets, net of disposal costs:</b>		
Radio	\$ —	\$ —
Television	—	(1)
Corporate	—	—
Consolidated	<u>\$ —</u>	<u>\$ (1)</u>
<b>Recapitalization costs:</b>		
Radio	\$ —	\$ —
Television	—	—
Corporate	711	826
Consolidated	<u>\$ 711</u>	<u>\$ 826</u>
<b>Other operating income:</b>		
Radio	\$ —	\$ —
Television	—	—
Corporate	(1)	—
Consolidated	<u>\$ (1)</u>	<u>\$ —</u>
<b>Operating income (loss):</b>		
Radio	\$ 11,202	\$ 8,413
Television	121	(1,201)
Corporate	(3,734)	(3,367)
Consolidated	<u>\$ 7,589</u>	<u>\$ 3,845</u>

The following summary table presents a comparison of our results of operations for the three-months ended March 31, 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>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net revenue	\$ 33,906	\$ 31,350
Engineering and programming expenses	6,731	8,617
Selling, general and administrative expenses	14,888	14,487
Corporate expenses	2,963	2,444
Depreciation and amortization	1,025	1,132
Gain on disposal of assets, net of disposal costs	—	(1)
Recapitalization costs	711	826
Other operating income	(1)	—
Operating income	7,589	3,845
Interest expense, net	(8,138)	(9,987)
Dividends on Series B preferred stock classified as interest expense	(2,433)	(2,433)
Income tax expense	387	2,263
Net loss	<u>(3,369)</u>	<u>(10,838)</u>

### ***Net Revenue***

The increase in our consolidated net revenues of \$2.6 million or 8% was due to increases in net revenue in both of our radio and television segments. Our radio segment net revenues increased \$1.0 million or 4%, due to increases in local, network and special events revenue, which were partially offset by decreases in national and barter sales. Our local sales increased in our Puerto Rico and Los Angeles markets, while our national sales decreased in our New York and San Francisco markets. Our special events revenue increased primarily in our Puerto Rico and Los Angeles markets, mainly due to an additional event held in Puerto Rico. This additional event was a new event that was originally scheduled to occur in 2017 but was postponed due to the effects of Hurricane Maria. The increase in Los Angeles was primarily due to better event results than in the previous year. Our television segment net revenues increased by \$1.5 million or 49%, due to the increases in special events revenue from the performance of a new event.

### ***Engineering and Programming Expenses***

The decrease in our consolidated engineering and programming expenses of \$1.9 million or 22% was due to the decreases in expenses in both of our radio and television segments. Our radio segment expenses decreased \$0.7 million or 12%, mainly due to decreases in digital development and content production costs related to the LaMusica application. The television segment expenses decreased by \$1.2 million or 48% primarily due to the increase of production tax credits in Puerto Rico and reductions in originally produced programming costs.

### ***Selling, General and Administrative Expenses***

The increase in our consolidated selling, general and administrative expenses of approximately \$0.4 million or 3% was due to increases in our television segment's expenses offset by decreases in our radio segment's expenses. Our radio segment expenses decreased approximately \$1.0 million or 7%, mainly due to the impact of a legal settlement and decreases in special events, barter, and bad debt expenses offset by increases in professional fees, advertising and commissions expenses. Our television segment expenses increased \$1.4 million or 102%, primarily due to increases in special event related expenses.

### ***Corporate Expenses***

The increase in corporate expenses of \$0.5 million or 21% was mostly due to an increase related to legal fees, compensation and benefits, and travel related expenses.

### ***Recapitalization Costs***

The Company incurred \$0.7 million of recapitalization costs, a decrease of \$0.1 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 incurred by the Supporting Holders.

### ***Operating Income***

The increase in operating income of \$3.7 million or 97% was primarily due to the increase in net revenues and the decreases in operating expenses and recapitalization costs.

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

The decrease in interest expense of \$1.8 million or 19% 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 expenses of \$1.9 million or 83% 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 increased 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 March 31, 2018 and, as of the date of this Quarterly Report on Form 10-Q, are as follows:

- Our Notes, of which there are \$260.3 million principal amount outstanding, were payable on April 17, 2017. Because we did not have sufficient cash on hand and did not generate sufficient cash from operations, asset sales or the FCC spectrum auction, which we discuss in greater detail under the heading "Federal Regulation of Radio and Television Broadcasting—Repurposing of Broadcast Spectrum for Other Uses by the FCC" in our Annual Report, we did not repay the Notes at their maturity.
- Certain holders of our Series B preferred stock, of which there is \$168.0 million outstanding (comprised of approximately \$90.5 million in liquidation preference and approximately \$77.5 million in accrued dividends), requested the redemption of their Series B preferred shares on October 15, 2013, which requests we did not satisfy in full. This gave rise to a continuing Voting Rights Triggering Event under the Certificate of Designations. One consequence of the existence of a Voting Rights Triggering Event is a prohibition on incurring additional indebtedness, including new indebtedness incurred to refinance outstanding indebtedness, among other things. Every quarter, we accrued additional dividends on the Series B preferred stock at a rate of 10 3/4% per year on the outstanding liquidation preference of the shares (or about \$9.7 million per year) and, because we do not make these dividend payments in cash, the outstanding liquidation preference of these shares increased by the dividend amount. A group of purported holders of the Series B preferred stock have sued in a Delaware Chancery Court, which has raised questions regarding the valid ownership of certain foreign entities of the Series B preferred stock, as described under the heading "Our Continued Recapitalization and Restructuring Efforts" in our Annual Report.
- Our current sources of liquidity are our cash and cash equivalents which increased by \$3.9 million during the first quarter of 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 \$394.8 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 Statements" and "Risk Factors—Risks Related to Our Indebtedness and Preferred Stock" in our Annual Report.

Our primary source of liquidity is our current cash and cash equivalents. We do not currently have a revolving credit facility or other working capital lines of credit. Our cash flows from operations are subject to factors impacting our customers and target audience, such as overall advertising demand, shifts in population, station listenership and viewership, demographics, audience tastes

and fluctuations in preferred advertising media. We do not expect to raise cash by increasing our indebtedness for several reasons, including the need to repay the Notes, the existence of an event of default under the Indenture that arose on April 17, 2017 and the existence of the Voting Rights Triggering Event. In addition, we also face the risk of the potential negative impact of an adverse ruling of the Series B preferred stock litigation, which is described in more detail in Note 6, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern and do not include any adjustments that might result if we were unable to do so, and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. However, we have concluded that there is substantial doubt about our ability to continue as a going concern as discussed under “Critical Accounting Policies— Going Concern” in Item 7 of our Annual Report. Furthermore, as of March 31, 2018 and December 31, 2017, we had a working capital deficit due primarily to the classification of our Series B preferred stock as a current liability and the classification of our Notes as a current liability. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have

On May 8, 2017, the Company, and certain of its subsidiaries entered into a Forbearance Agreement with certain Noteholders, owning more than 75% of the principal amount of the outstanding Notes. These Noteholders agreed to forbear from exercising any of their rights and remedies under the Indenture, with respect to certain defaults from the effective date of the Forbearance Agreement until the earliest to occur of (a) the occurrence of any event of termination and (b) May 31, 2017. As part of the Forbearance Agreement, the Company agreed to make monthly interest payments of \$2,864,583 on the Notes for the 30 day periods ending on May 15, 2017 and June 15, 2017, rather than on a semi-annual basis as required by the Indenture. The Company also agreed to pay a consent fee to these Noteholders equal to 0.35% of the principal amount of the Notes held by such parties and to pay the legal fees and financial advisor due diligence fees of these Noteholders. The Forbearance Agreement expired and has not been extended. As of the date of the filing of these financial statements, the Company had made all of the payments required to be made under the Forbearance Agreement and has continued to make monthly interest payments on the Notes on the 15th day of each month and continued to pay the monthly legal and financial advisor due diligence fees of these Noteholders.

At March 31, 2018, there is \$260.3 million in principal amount of Notes outstanding. As a result, there has been and remains an event of default under the Indenture which gives the holders of our Notes the right to demand repayment of the Notes and, subject to the terms of the Indenture, to foreclose on our assets that serve as collateral for the Notes. The collateral constitutes substantially all of our assets. We continue to pay interest on the Notes at their current rate of 12.5% per year on a monthly basis. We expect to sell our New York real estate for \$14.0 million in the third quarter of 2018, and we expect to use the net proceeds from the sale of the New York real estate to repay a portion of the Notes. See Note 1 elsewhere in these financial statements for additional detail regarding our recapitalization efforts and our failure to repay the Notes at maturity.

A summary of the outstanding balance of our Notes, as of January 1, 2017 and changes through the quarter ended March 31, 2018, is presented below (in thousands and net of unamortized discount and deferred financing costs). Redemptions listed below were made with the net proceeds of asset sales.

12.5% Senior Notes due 2017, net, as of January 1, 2017	\$ 273,233
Amortization of discount and deferred financing cost	1,767
Redemption of Notes (June 9, 2017)	(10,336)
Redemption of Notes (August 23, 2017)	(4,390)
12.5% Senior Notes due 2017, net, as of March 31, 2018	<u>\$ 260,274</u>

### ***Interest***

The Notes accrue interest at a rate of 12.5% per year. Since April 17, 2017, interest has been payable on demand. We have been paying interest monthly since that date. Additional interest will be payable at a rate of 2.00% per annum (the “Additional Interest”) on (i) the unpaid principal amount of the Notes plus (ii) any amount of Additional Interest payable but unpaid in any prior interest period, to be paid in cash, at our election, on any acceleration of the Notes and any redemption of the Notes; provided that no Additional Interest will be payable if, for the applicable fiscal period, either (a) we record positive consolidated station operating income for our television segment for the most recent twelve-month period ending either June 30 or December 31, or (b) our secured leverage ratio on a consolidated basis is less than 4.75 to 1.00.

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, 2017.

### ***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 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements) currently prevents us from incurring any such additional debt.

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

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

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

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

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

### ***Series B Preferred Stock***

### ***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



## Summary of Capital Resources

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

	Three-Months Ended		Change
	March 31,		
	2018	2017	\$
Capital expenditures:			
Radio	\$ 225	202	23
Television	17	23	(6)
Corporate	6	51	(45)
Consolidated	<u>\$ 248</u>	<u>\$ 276</u>	(28)
Net cash flows provided by operating activities	\$ 4,189	11,181	(6,992)
Net cash flows used in investing activities	(248)	(209)	(39)
Net cash flows used in financing activities	—	(4,616)	4,616
Net increase in cash and cash equivalents	<u>\$ 3,941</u>	<u>6,356</u>	

### *Capital Expenditures*

The decrease in our capital expenditures was primarily due to a greater amount of prior year corporate capital expenditures due to a software implementation which occurred during the first quarter of 2017.

### *Net Cash Flows Provided by Operating Activities*

Changes in our net cash flows provided by operating activities were primarily a result of the Company commencing to make interest payments on a monthly rather than semi-annual basis on the 12.5% Senior Secured Notes.

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

Changes in our net cash used in investing activities were primarily a result of having received proceeds from the disposal of a generator and related electrical equipment during the first quarter of 2017 which were not present during the first quarter of 2018.

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

Changes in our net cash used in financing activities were a result of paying the promissory note related to the SBS Miami Broadcast Center in January 2017.

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### **Recently Issued Accounting Pronouncements**

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

### **Critical Accounting Policies**

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

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

Our critical accounting policies are described in Item 7 of our Annual Report. There have been no material changes to our critical accounting policies during the three-months ended March 31, 2018.

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

We are a “smaller reporting company” as defined by Regulation S-K and as such, we are not re Tfaurest31.9



**Item 6. Exhibits**

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

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

## SIGNATURES

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

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSEPH A. GARCÍA  
JOSEPH A. GARCÍA

*Chief Financial Officer,  
Chief Administrative Officer, Senior  
Executive Vice President and Secretary  
(principal financial and accounting officer  
and duly authorized officer of the registrant)*

Date: June 28, 2018

**CERTIFICATION**

I, Raúl Alarcón, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spanish Broadcasting System, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is madeand 1 ult1 ult1 ult1

**CERTIFICATION**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the “Company”) for the quarterly period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Raúl Alarcón, Chairman of the Board of Directors, President and Chief Executive Officer of the Company, certify, as of the dates hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Spanish Broadcasting System, Inc. (the "Company") for the quarterly period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph A. García, Chief Financial Officer, Executive Vice President and Secretary of the Company, certify, as of the dates hereof, pursuant to 18