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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended March 31, 2018

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**  
(State or other jurisdiction of  
incorporation or organization)

**13-3827791**  
(I.R.S. Employer  
Identification No.)

**7007 NW 77th Ave.**  
**Miami, Florida 33166**

(Address of principal executive offices) (Zip Code)

**(305) 441-6901**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 20, 2018, 4,216,991 shares of Class A common stock, par value \$0.0001 per share, 2,340,353 shares of Class B common stock, par value \$0.0001 per share and 380,000 shares of Series C convertible preferred stock, \$0.01 par value per share, which are convertible into 760,000 shares of Class A common stock, were outstanding.

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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 Triggering Event relating to the Series B preferred stock;*
- *Our ability to repurchase all of the Notes and our Series B preferred stock upon a change in control;*
- *Our ability to generate sufficient cash from operations or the sale of assets to repay our Notes and our liabilities under our Series B preferred stock, which may force us to take other actions to satisfy our obligations under our Notes and Series B preferred stock;*
- *Our high leverage and substantial level of indebtedness;*
- *Restrictions on our current and future operations pursuant to the terms of the indenture governing the Notes (the “Indenture”) and the terms of the Series B preferred stock;*
- *Risks relating to possible foreign ownership of our equity (Series B preferred stock) and litigation with holders of our Series B preferred stock;*
- *We have experienced net losses in the past and, to the extent that we experience net losses in the future, our ability to raise capital may be adversely affected;*
- *Risks relating to our net operating loss (“NOL”) carry-forwards;*
- *Our industry is highly competitive, and we compete for advertising revenue with other broadcast stations, as well as other media, many operators of which have greater resources than we do;*
- *The large portion of our net revenue and operating income that currently comes from our New York, Los Angeles and Miami markets;*
- *Possible cancellations, reductions, delays and seasonality in advertising could adversely affect our net revenues;*
- *Our inability to pursue and successfully execute our expansion strategy which may impact our growth;*
- *Our cost-cutting measures may impact our ability to pursue our expansion strategy;*
- *The success of our radio stations depends on the popularity and appeal of our content, which is difficult to predict;*
- *The success of our television operation depends upon our ability to attract viewers and advertisers to our broadcast television operation;*
- *The loss of distribution agreements could materially adversely affect our results of operations;*

- *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
Current assets:		
Cash and cash equivalents	\$ 20,082	\$ 16,141
Receivables:		
Trade	27,415	32,046
Barter	200	288
	<u>27,615</u>	<u>32,334</u>
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	<u>\$ 435,592</u>	<u>\$ 435,904</u>
<b>Liabilities and Stockholders' Deficit</b>		
Current liabilities:		
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
Total current liabilities	450,310	447,141
Other liabilities, less current portion	3,447	3,406
Deferred tax liabilities	81,096	81,271
Total liabilities	534,853	531,818
Commitments and contingencies (note 6)		
Stockholders' deficit:		
Series C convertible preferred stock, \$0.01 par value and liquidation value. Authorized 600,000 shares; 380,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	4	4
Class A common stock, \$0.0001 par value. Authorized 100,000,000 shares; 4,216,991 and 4,166,991 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Class B common stock, \$0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Additional paid-in capital	526,169	526,147
Accumulated deficit	(625,434)	(622,065)
Total stockholders' deficit	(99,261)	(95,914)
Total liabilities and stockholders' deficit	<u>\$ 435,592</u>	<u>\$ 435,904</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

**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)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

Unaudited Condensed Consolidated Statement of Changes in Stockholders' Deficit  
for the Three-Months Ended March 31, 2018  
(In thousands, except share data)

	Series C convertible preferred stock		Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' deficit
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value			
Balance at December 31, 2017	380,000	\$ 4	4,166,991	\$ —	2,340,353	\$ —	\$ 526,147	\$ (622,065)	\$ (95,914)
Net loss	—	—	—	—	—	—	—	(3,369)	(3,369)
Issuance of Class A common stock	—	—	50,000	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	22	—	22
Balance at March 31, 2018	<u>380,000</u>	<u>\$ 4</u>	<u>4,216,991</u>	<u>\$ —</u>	<u>2,340,353</u>	<u>\$ —</u>	<u>\$ 526,169</u>	<u>\$ (625,434)</u>	<u>\$ (99,261)</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

Unaudited Condensed Consolidated Statements of Cash Flows  
(In thousands)

	Three-Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (3,369)	\$ (10,838)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense	2,433	2,433
Gain on the disposal of assets	—	(1)
Stock-based compensation	22	79
Depreciation and amortization	1,025	1,132
Net barter loss (income)	5	(99)
(Reversal of) provision for trade doubtful accounts	(61)	98
Amortization of deferred financing costs	—	853
Amortization of original issued discount	—	538
Deferred income taxes	(175)	2,207
Unearned revenue	78	(457)
Changes in operating assets and liabilities:		
Trade receivables	4,497	5,627
Prepaid expenses and other current assets	(1,097)	(498)
Other assets	13	(65)
Accounts payable and accrued expenses	777	1,448
Accrued interest	—	8,572
Other liabilities	41	152
Net cash provided by operating activities	<u>4,189</u>	<u>11,181</u>
Cash flows from investing activities:		
Purchases of property and equipment	(248)	(276)
Proceeds from the sale of property and equipment	—	67
Net cash used in investing activities	<u>(248)</u>	<u>(209)</u>
Cash flows from financing activities:		
Payments of other debt	—	(4,616)
Net cash used in financing activities	—	(4,616)
Net increase in cash and cash equivalents	3,941	6,356
Cash and cash equivalents at beginning of period	16,141	23,835
Cash and cash equivalents at end of period	<u>\$ 20,082</u>	<u>\$ 30,191</u>
Supplemental cash flows information:		
Interest paid	<u>\$ 8,141</u>	<u>\$ 5</u>
Income tax paid	<u>\$ —</u>	<u>\$ 14</u>
Noncash investing and financing activities:		
Unrealized gain on derivative instruments	<u>\$ —</u>	<u>\$ 10</u>

See accompanying notes to the unaudited condensed consolidated financial statements.



**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 principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2017, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed by the Company on May 23, 2018 (the “Annual Report”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of March 31, 2018 through the financial statements issuance date. The results of operations for the three-months ended March 31, 2018 are not necessarily indicative of the results for the entire year ending December 31, 2018, 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 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 of March 31, 2018 and December 31, 2017, we had a working capital deficit due primarily to the classification of our 10<sup>3</sup>/<sub>4</sub>% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”) as a current liability and the classification of our 12.5% Senior Secured Notes (the “Notes”) as a current liability. The Series B preferred stock became “mandatorily redeemable” and classified as a current liability when we failed to repurchase such stock on October 15, 2013. We discuss the classification of the Series B preferred stock as a current liability in greater detail under the heading “Redemption Date and Subsequent Accounting Treatment of the Preferred Stock” in Note 9 elsewhere in these Notes to the Unaudited Condensed Consolidated Financial Statements. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to redeem or repurchase the Series B preferred stock and its accumulated unpaid dividends. If we are successful in repaying or refinancing our Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B preferred stock, to extent of the funds legally available. In addition, the Company is currently involved in litigation with some holders of the Series B preferred stock. See Note 6 elsewhere in these Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail regarding the Series B preferred stock litigation. As further discussed below, both of these things, the classification of the Notes and the Series B preferred stock as current liabilities and the Series B preferred stock litigation could adversely affect our ability to continue as a going concern.

As discussed in Note 8, the Notes became due on April 15, 2017. Cash from operations and proceeds from the sale of assets and 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, were not sufficient to repay the Notes when they became due. We have worked and continue to work with our advisors regarding a consensual recapitalization or restructuring of our balance sheet, including through the issuance of new debt or equity to raise the necessary funds to repay the Notes. The Series B preferred stock litigation and the foreign ownership issue we describe in greater detail below and under the heading “Our Continued Recapitalization and Restructuring Efforts—Foreign Ownership Issue” in our Annual Report have complicated our efforts at a successful refinancing of the Notes. The resolution of the recapitalization or restructuring of our balance sheet, the litigation with the purported holders of our Series B preferred stock and the foreign ownership issue are subject to several factors currently beyond our control. Our potential inability to effect a consensual refinancing of the Notes, and successfully resolve the Series B preferred stock litigation and the foreign ownership issue will likely continue to have a material adverse effect on us.

The Company has incurred \$0.7 million for the three-months ended March 31, 2018, of recapitalization costs, primarily due to professional fees. Also included in these amounts are the legal and financial advisory fees incurred by the holders of the Notes.

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 and raises substantial doubt about our ability to continue as a going concern. The financial statements do not include adjustments, if any, that might arise from the outcome of this uncertainty.

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

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)*, which expresses the views of the SEC staff regarding the application of FASB Topic 740, Income Taxes, in the reporting period that includes December 22, 2017—the date on which the Tax Cuts and Jobs Act (the "Tax Legislation") was signed into law. SAB 118 provides guidance for entities under three scenarios:

1. Measurement of certain income tax effects is complete—Entities must reflect the tax effects of the Tax Legislation for which the accounting is complete;
2. Measurement of certain income tax effects can be reasonably estimated—Entities must report provisional amounts for those specific income tax effects of the Tax Legislation for which the accounting is incomplete but a reasonable estimate can be determined. Provisional amounts or adjustments to provisional amounts identified in the measurement period, as defined, should be included as an adjustment to tax expense or benefit from continuing operations in the period the amounts are determined; and
3. Measurement of certain income tax effects cannot be reasonably estimated—Entities are not required to report provisional amounts for any specific income tax effects of the Tax Legislation for which a reasonable estimate cannot be determined, and would continue to apply Topic 740 based on the provisions of the tax laws that were in effect immediately prior to the enactment of the Tax Legislation.

Entities are to report the provisional amounts of the tax effects of the Tax Legislation in the first reporting period in which a reasonable estimate can be determined. SAB 118 further provides that the measurement period is complete when an entity's accounting is complete and in no circumstances should the measurement period extend beyond one year from the enactment date. The Company may be able to complete the accounting for some provisions earlier than others. As a result, the Company may need to apply all three scenarios in determining the accounting for the Tax Legislation based on the information that is available. The ultimate impact of the Act on the Company's consolidated financial statements and related disclosures for 2017 and beyond may differ from current estimates, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the Tax Legislation that differ from those presently contemplated. For additional information, see Note 14 to the financial statements in our Annual Report.

In February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of certain not-yet-effective guidance on the recognition and measurement of financial assets and financial liabilities. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Entities with fiscal years beginning between December 15, 2017 and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018. Entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01. The Company is currently evaluating the effect the update will have on its financial statements.

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

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718)*, to provide clarity and reduce cost, complexity, and diversity in practice when applying stock compensation guidance to a change to the terms or conditions of a share-based payment award. The update is effective prospectively for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Company adopted the new guidance in the first quarter of 2018 with no material impact on its financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*, to clarify the scope of guidance on the derecognition of nonfinancial assets and to provide guidance for partial sales of nonfinancial assets. The update is effective retrospectively or on a modified retrospective basis for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early application permitted in certain circumstances. The Company adopted the new guidance on January 1, 2018, using the modified retrospective transition method. The cumulative effect of initially applying the new guidance had no impact on the opening balance of accumulated deficit as of January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)*. This new standard clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This update is effective prospectively for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted the new guidance in the first quarter of 2018 with no material impact on its financial statements.

In October 2016, the FASB issued ASU No. 2016-16, – *Income Taxes (Topic 740)*. The standard requires that the income tax impact of intra-entity sales and transfers of property, other than inventory, be recognized when the transfer occurs. The standard became effective January 1, 2018, and requires any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings under a modified retrospective approach. The implementation of this standard did not have an impact on our financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statements of Cash Flows (Topic 230)*. This new standard's objective is to clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows. In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows (Topic 230)* which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. These updates are effective on a retrospective basis for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company adopted the new guidance in the first quarter of 2018 with no material impact on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard requires organizations that lease assets to recognize on the balance sheet the lease assets and lease liabilities for the rights and obligations created by those leases and disclose key information about the leasing agreements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period and must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that this new standard will have on our financial position and related disclosures and expect the impact on our assets and liabilities will be material due to the addition of right-of-use assets and lease liabilities; however the impact cannot currently be quantified.

In January 2016, the FASB issued ASU No. 2016-01, *Accounting for Financial Instruments – Recognition and Measurement*. The new guidance changes how entities measure equity investments and present changes in the fair value of financial liabilities. The new guidance requires entities to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value and as such these investments may be measured at cost. The new guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted the new guidance in the first quarter of 2018 with no material impact on its financial statements.

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>
Local, national and digital	28,628	27,897
Network	2,130	1,480
Special events	5,120	3,080
Barter	912	1,496
Other	1,661	1,410
Gross revenue	38,451	35,363
Less: Agency commissions and other	4,545	4,013
Net revenue	<u>33,906</u>	<u>31,350</u>

## *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.

### ***Assets Recognized from the Costs to Obtain a Contract with a Customer***

ASC 606 requires that the Company capitalize incremental costs of obtaining a contract such as sales commissions. The guidance provides certain practical expedients that limit this requirement. The Company has elected to use the practical expedient in ASC 340-40-25-4 which allows us to recognize the incremental cost of obtaining a contract, such as sales commissions paid to our employees, as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.

## **3. Basic and Diluted Net Loss Per Common Share**

Basic net loss per common share was computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock and convertible preferred stock outstanding for each period presented, using the "if converted" method. Diluted net loss per common share is computed by giving effect to common stock equivalents as if they were outstanding for the entire period.

The following is a reconciliation of the shares used in the computation of basic and diluted net loss per share for the three-month periods ended March 31, 2018 and 2017 (in thousands):

	<b>Three-Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Basic weighted average shares outstanding	7,300	7,267
Effect of dilutive equity instruments	—	—
Dilutive weighted average shares outstanding	<u>7,300</u>	<u>7,267</u>
Options to purchase shares of common stock and other stock-based awards outstanding which are not included in the calculation of diluted net income per share because their impact is anti-dilutive	<u>418</u>	<u>401</u>

#### 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>		
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>
<b>Capital expenditures:</b>		
Radio	\$ 225	\$ 202
Television	17	23
Corporate	6	51
Consolidated	<u>\$ 248</u>	<u>\$ 276</u>

	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
Consolidated	<u>\$ 435,592</u>	<u>\$ 435,904</u>

## 5. Income Taxes

We are calculating our effective income tax rate using a year-to-date income tax calculation, due to the full valuation allowance on the Company's deferred tax assets, with exception of indefinite lived deferred tax assets. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to the continued pre-tax operating losses reported through the first quarter of 2018, management has not changed its valuation allowance position as of March 31, 2018, from December 31, 2017.

Our income tax expense differs from the statutory federal tax rate of 21% and related statutory state tax rates primarily due to the tax amortization on certain indefinite-lived intangible assets that do not have any valuation allowance, offset by the deferred tax asset created from disallowed interest as a result of tax laws changes from the Tax Legislation, and other changes in the valuation allowance.

U.S. Federal jurisdiction and the jurisdictions of Florida, New York, California, Illinois, Texas and Puerto Rico are the major tax jurisdictions where we file income tax returns. The tax years that remain subject to assessment of additional liabilities by the federal, state and local tax authorities are 2010 through 2017. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2012 through 2017.

Based on our evaluation, we have concluded that there are no material uncertain tax positions requiring recognition in our consolidated financial statements as of March 31, 2018 and December 31, 2017.

## 6. Commitments and Contingencies

We are subject to certain legal proceedings and claims that have arisen in the ordinary course of business and have not been fully adjudicated. In our opinion, we do not have a potential liability related to any current legal proceedings and claims that would individually or in the aggregate have a material adverse effect on our financial condition or operating results. However, the results of legal proceedings cannot be predicted with certainty. Should we fail to prevail in any of these legal matters or should all of these legal matters be resolved against us in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

### *Series B Preferred Stock Litigation*

Persons claiming to own 94.16% of our Series B preferred stock filed a complaint against us in the Delaware Court of Chancery, in *Cedarview Opportunities Master Fund, L.P., et al. v. Spanish Broadcasting System, Inc.* (Del.Ct.Ch. C.A. No. 2017-0785-AGB), on 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 Third Amended and Restated Certificate of Incorporation (the "Charter") and for a declaratory judgment regarding the validity of a provision of the Charter regarding the foreign ownership issue we describe in greater detail under the heading "Our Continued Recapitalization and Restructuring Efforts—Foreign Ownership Issue" in our Annual Report. Specifically, it alleges that the Forbearance Agreement (which expired on May 31, 2017) and certain payments pursuant thereto were barred by the Certificate of Designations due to the existence of a "Voting Rights Triggering Event" under the Certificate of Designations because, among other things, the forbearance agreement allegedly constituted a "de facto" extension or refinancing of the Notes. The Preferred Holder Complaint alleges that SBS breached the Charter by suspending certain rights of the Series B preferred stockholders, and that Section 10.4 of the Charter is overbroad and thus invalid as a matter of Delaware law. The complaint requests relief including, among other things, an order interpreting and enforcing the Certificate of Designations, preventing us from making any additional payments on the Notes and requiring us to redeem the Series B preferred stock at face value plus accrued dividends (or approximately \$168.0 million as of March 31, 2018), as well as unspecified money damages and a declaration that



Section 10.4 of the Charter is invalid. This is the fourth lawsuit filed against us by holders or purported holders of our Series B preferred stock, the first three of which we successfully challenged and won. We believe these claims are without merit, and we intend to defend ourselves vigorously. We have filed a motion to dismiss these claims, for which oral argument was heard on April 12, 2018. However given the uncertainties inherent in litigation, there can be no assurances that we will be successful and win the current litigation.

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

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

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

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

#### ***Gutiérrez-Ortiz Lawsuit***

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

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

## **7. Fair Value Measurement Disclosures**

### ***Fair Value of Financial Instruments***

Cash and cash equivalents, receivables, as well as accounts payable and accrued expenses, and other current liabilities, as reflected in the consolidated financial statements, approximate fair value because of the short-term maturity of these instruments. The estimated fair value of our other long-term debt instruments, approximate their carrying amounts as the interest rates approximate our current borrowing rate for similar debt instruments of comparable maturity, or have variable interest rates.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair value of the Notes is estimated using market quotes from a major financial institution taking into consideration the most recent activity and are considered Level 2 measurements within the fair value hierarchy. The fair value of the Series B cumulative exchangeable redeemable preferred stock was based upon a weighted average analysis using the Black-Scholes method, an income approach, and the yield method resulting in a Level 3 classification. The Black-Scholes method utilized an estimate of the fair value of the SBS equity, volatility, an estimate of the time to liquidity, and a risk free rate in the determination of the SBS preferred fair value. Key assumptions for the income and yield methods included the expected yield on preferred stock, accrued dividends, the principal amount of the Series B preferred stock, and an estimate of the time to liquidity. A discount for lack of marketability of the preferred stock was also utilized in the analysis. The outcome of the Series B preferred stock litigation may impact the fair value of the Series B preferred stock going forward.

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

Description	Fair Value Hierarchy	March 31, 2018		December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
12.5% senior secured notes (note 8)	Level 2	\$ 260.3	271.1	\$ 260.3	269.1
10 <sup>3</sup> / <sub>4</sub> % Series B cumulative exchangeable redeemable preferred stock (note 9)	Level 3	168.0	37.7	165.6	38.1

## 8. 12.5% Senior Secured Notes

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

On May 8, 2017, the Company, and certain of its subsidiaries entered into a Forbearance Agreement with certain 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 was \$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 continued recapitalization and restructuring efforts and our failure to repay the Notes at maturity.

## 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.

### **9. 10 3/4% Series B Cumulative Exchangeable Redeemable Preferred Stock**

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

On February 18, 2004, we commenced an offer to exchange registered shares of our 10 3/4% Series B cumulative exchangeable redeemable preferred stock, par value \$0.01 per share and liquidation preference of \$1,000 per share for any and all shares of our outstanding unregistered Series A preferred stock. On April 5, 2004, we completed the exchange offer and exchanged 76,702 shares of our Series B preferred stock for all of our then outstanding shares of Series A preferred stock.

Holder 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 we received requests and instead used the limited funds legally available to us to repurchase 1,800 shares for a purchase price of approximately \$2.5 million, which included accrued and unpaid dividends. Consequently, a "Voting Rights Triggering Event" occurred (the "Voting Rights Triggering Event").

During the continuation of a Voting Rights Triggering Event, certain of the covenants summarized above become more restrictive by their terms including (i) a prohibition on our ability to incur additional 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, the holders of the Series B preferred stock have the right to elect two members to our Board of Directors. At our Annual Meeting of Stockholders in 2014, the holders of the Series B preferred stock nominated and elected Alan Miller and Gary Stone to serve as the Series B preferred stock directors who remained on the Board of Directors until their resignation on August 17, 2017. The holders of the Series B Preferred Stock have the right to elect two new directors to the Board of Directors to fill the seats vacated by Messrs. Miller and Stone for their unexpired terms at a special meeting of the holders of the Series B preferred stock. As of the date of these financial statements, the holders of the Series B preferred stock have not elected any new directors to fill the vacated seats. The two vacancies on the Board of Directors will remain unfilled until such time as the holders of the Series B preferred stock appoint two new directors.

The 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. We do not currently have sufficient funds legally available to be able to satisfy the conditions for terminating the Voting Rights Triggering Event. The terms of our Series B preferred stock require us, in the event of a change of control, to offer to repurchase all or a portion of a holder's shares at an offer price in cash equal to 101% of the liquidation preference of the shares, plus an amount in cash equal to all accumulated and unpaid dividends on those shares up to but excluding the date of repurchase. We do not currently have sufficient funds legally available to be able to satisfy the conditions for terminating the Voting Rights Triggering Event or for repurchasing the shares in the event of a change of control. During the continuation of the Voting Rights Triggering Event, the Indenture governing our Notes prohibits us from paying dividends or from repurchasing the Series B preferred stock.

We are currently in litigation with persons claiming to own 94.16% of our Series B preferred stock as described above in Note 6, Commitments and Contingencies.

In reviewing the Preferred Holder Complaint, we noted that if the allegations set forth in the Preferred Holder Complaint were correct, which we have not conceded, and the collective ownership of the outstanding Series B preferred stock by foreign entities (as defined below) exceeded 63 percent of the outstanding Series B preferred stock as stated in the Preferred Holder Complaint, then foreign entities would own well in excess of 25 percent of our equity in violation of the Communications Act of 1934, as amended (the "Communications Act") without giving effect to the operative provisions of Article X of our Charter. Section 310(b) of the Communications Act prohibits foreign entities from holding in excess of 25 percent of the equity in the Company absent the affirmative consent of the FCC. In addition, we determined that the current ownership of the Series B preferred stock appeared to violate the foreign ownership restrictions set forth in the Charter. Article X of our Charter contains provisions governing foreign ownership of the capital stock of the Company and compliance with Section 310 of the Communications Act. These provisions of our Charter restrict foreign ownership in us to not more than 25 percent of the aggregate number of our shares of capital stock outstanding in any class or series entitled to vote on any matter. In addition, the last paragraph of Article X of the Charter provides that any transfers of the Company's equity securities that would either violate (or would result in a violation of) the Communications Act or that required prior approval of the FCC are "ineffective." As a result, in reviewing the Preferred Holder Complaint, we believed that certain of those transfers, when attempted, appear to have been in contravention of the Charter and the Communications Act, and were therefore void as a legal matter when they were attempted, if this provision is given effect. In addition, to the extent that those transactions required prior FCC approval or, if given effect, would have placed the Company in violation of the foreign ownership restrictions set forth in the Communications Act, those transactions were ineffective and void by operation of the Charter, and are therefore deemed to have never occurred.

Given the information that was disclosed to us in the Preferred Holder Complaint regarding the purported ownership of a majority of the Series B preferred stock by foreign entities, we were required to take immediate remedial action in order to ensure that any 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.

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 with respect to the potential excess foreign ownership. 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 Company's 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 the petition for declaratory ruling 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 has reviewed this information in order to determine whether it is complete, true and correct, as required by the FCC's rules, and has requested some additional information from the Series B preferred stockholders. The Company's petition therefore remains pending before the FCC, and cannot be acted upon until complete ownership information is submitted and has been certified by the Company as true and correct. In addition, on March 26, 2018, we issued a press release and filed a Current Report on Form 8-K with the SEC that disclosed the foreign ownership issue we summarize above, in part, to warn innocent investors of possible attempted, fraudulent transfers of the Series B preferred stock and our request to The Depository Trust Company ("DTC") to suspend trading in the Series B preferred stock pending the resolution of who validly owns these shares, among other things. Subsequent to that press release, we believe, based on conversations with DTC, that DTC will not impose a global lock and chill on Series B preferred stock held by its participants. We provide additional information regarding the foreign ownership issue under the heading "Our Continued Recapitalization and Restructuring Efforts—Foreign Ownership Issue" in our Annual Report.

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

### ***Quarterly Dividends***

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

As of March 31, 2018, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately \$77.5 million, which is accrued on our condensed consolidated balance sheet as 10 <sup>3</sup>/<sub>4</sub>% Series B cumulative exchangeable redeemable preferred stock.

### ***Redemption Date and Subsequent Accounting Treatment of the Preferred Stock***

Prior to October 15, 2013, the Series B preferred stock was considered "conditionally redeemable" because the redemption of the shares of Series B preferred stock was contingent on the Series B preferred stockholders requesting that their Series B preferred stock be repurchased on October 15, 2013. On October 15, 2013, almost all of the holders of the Series B preferred stock requested that we repurchase their shares of Series B preferred stock. As a result of their request, we assessed and determined that, under applicable accounting principles, the contingency had occurred, and the Series B preferred stock now met the definition of a "mandatorily redeemable" instrument under Accounting Standards Codification 480 "*Distinguishing Liabilities from Equity*" ("ASC 480"). Although under Delaware law the Series B preferred stock is deemed equity, under ASC 480, if an instrument changes from being "conditionally redeemable" to "mandatorily redeemable," then the financial instrument should be reclassified as a liability.

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

## 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	<u>\$ 409</u>	<u>\$ 409</u>

## **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 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 respective markets. The U.S. Hispanic population is diverse, consisting of numerous identifiable ethnic groups from many different countries of origin, and each ethnic group has its own musical and cultural heritage. Since the music, culture, customs and Spanish dialects vary from one radio market to another, we strive to maintain familiarity with the musical tastes and preferences of each of the various Hispanic ethnic groups. To accommodate and monetize such diversity, we customize our programming to match the local preferences of our target demographic audience in each market we serve. In addition to our owned and operated radio stations, we have our AIRE Radio Networks with over 250 affiliate radio stations serving 85 of the top 100 U.S. Hispanic markets, including 47 of the top 50 Hispanic markets. AIRE Radio Networks currently covers 94% of the coveted U.S. Hispanic market. Our AIRE Radio Networks reach over 17.4 million listeners in an average week with our targeted networks. For the three-months ended March 31, 2018 and 2017, our radio revenue was generated primarily from the sale of local, national, and network advertising, and our radio segment generated 86% and 90% of our consolidated net revenue, respectively.

Our television stations and related affiliates operate under the "MegaTV" brand. We broadcast via our owned and operated television stations in South Florida, Houston and Puerto Rico through programming and/or distribution agreements, including nationally on a subscriber basis, which allow us to serve markets representing over 3.5 million Hispanic households. We have created a unique television format which focuses on entertainment, current events and variety with high-quality content. Our programming is formatted to capture a larger share of the U.S. Hispanic audience by focusing on our core strengths as an "entertainment" company, thus offering a new alternative compared to the traditional Hispanic television channels. MegaTV's programming is based on a strategy designed to showcase a combination of programs, ranging from televised radio-branded shows to general entertainment programs, such as music, celebrity, debate, interviews and personality based shows. As part of our strategy, we have incorporated certain of our radio on-air personalities into our television programming. In addition, we have included interactive elements in our programming to complement our Internet websites. We produce over 50 hours of original programming per week. For the three-months ended March 31, 2018 and 2017, our television revenue was generated primarily from the sale of local and national advertising and paid programming. Our television segment generated 14% and 10% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple Spanish and bilingual websites, including [www.lamusica.com](http://www.lamusica.com), [Mega.tv](http://Mega.tv) and various station websites that provide content related to Latin music, entertainment, news and culture, as well as the LaMusica mobile application. The LaMusica mobile application is a music and entertainment video and audio application, that programs an extensive series of short form videos, simultaneously live streams our radio stations', includes hundreds of curated playlists and has tools that enable users to personalize their mobile radio streaming experience. The new video enhancements to our mobile application significantly enhance the audience's engagement level and increases the reach of our mobile offering. In addition, we produce live concerts and events in the United States and Puerto Rico. Concerts generate revenue from ticket sales, sponsorship and promotions, raise awareness of our brands in the surrounding communities and provide our advertising partners additional opportunities to reach their target audience.

### **Our Continued Recapitalization and Restructuring Efforts**

We have not repaid our outstanding Notes since they became due on April 17, 2017, and we continue to evaluate all options available to refinance the Notes. While we assess how to best achieve a successful refinancing of the Notes, we have continued to pay interest on the Notes, payments that a group of investors purporting to own our Series B preferred stock have challenged through the institution of litigation in the Delaware Court of Chancery as described in Note 6, Commitments and Contingencies, of the Notes to the Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. The complaint filed by these investors revealed a purported foreign ownership of our Series B preferred stock, which we are actively addressing, including before the Federal Communications Commission (the "FCC") in order to protect our broadcast licenses. Our refinancing efforts have been made more difficult and complex by the Series B preferred stock litigation and 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.

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

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

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

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

- Local revenue generally consists of advertising airtime sold in a station's local market 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). For the three-months ended March 31, 2018 and 2017, local revenue comprised 62% and 64% of our gross revenues, respectively. National revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. National sales are generally facilitated by our outside national representation firm, which serves as our agent in these transactions. For the three-months ended March 31, 2018 and 2017, national revenue comprised 9% and 12% of our gross revenues, respectively. Digital revenue is derived from the sale of advertiser promotions and advertising on the LaMusica application and our websites, as well as the sale of advertising airtime during the streaming of our radio stations. For the three-months ended March 31, 2018 and 2017, digital revenue comprised 3% of our gross revenues.
- Network revenue generally consists of advertising airtime sold to agencies purchasing advertising for multiple markets. Network sales consist of advertising airtime sold on our AIRE Radio Network platform by our network sales staff. For the three-months ended March 31, 2018 and 2017, network revenue comprised 6% and 4% of our gross revenues, respectively.

Our net revenue is generally determined by the advertising rates that we are able to charge and the number of advertisements that we can broadcast without jeopardizing listenership/viewership levels. Each station broadcasts a predetermined number of advertisements per hour with the actual number depending upon the format of a particular station and any programming strategy we are utilizing to attract an audience. The number of advertisements we decide to broadcast hourly is intended to maximize the station's revenue without negatively impacting its audience listener/viewer levels. While there may be shifts from time to time in the number of advertisements broadcast during a particular time of the day, the total number of advertisements broadcast on a particular station generally does not vary significantly from year to year.

Our advertising rates are primarily based on the following factors:

- a station's audience share in the demographic groups targeted by advertisers which are measured by ratings agencies, primarily Nielsen;
- the number of stations, as well as other forms of media, in the market competing for the attention of the same demographic groups;
- the supply of, and demand for, advertising time; and
- the size of the market.

Our net revenue is also affected by general economic conditions, competition and our ability to improve operations at our market clusters. Seasonal revenue fluctuations are also common in the broadcasting industry and are primarily due to variations in advertising expenditures by local and national advertisers. Our net revenue is typically lowest in the first calendar quarter of the year.

In addition to advertising revenue, we also generate revenue from barter sales, special events revenue, and other revenue.

- *Barter sales.* We use barter sales agreements to reduce cash paid for operating costs and expenses by exchanging advertising airtime for goods or services. However, we endeavor to minimize barter revenue in order to maximize cash revenue from our available airtime. For the three-months ended March 31, 2018 and 2017, barter revenue comprised 2% and 4% of our gross revenues, respectively.
- *Special events revenue.* We generate special events revenue from ticket sales and event sponsorships, 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, 2018 and 2017, special events revenue comprised 13% and 9% of our gross revenues, respectively.



- *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.* Selling, general and administrative expenses are related to the costs of selling our programming content and administrative costs associated with operating and managing our stations. These expenses include compensation and benefits for employees involved in selling and administrative functions, commissions, rating services, advertising, barter expenses, facilities expenses, special events expenses, professional fees, insurance, allowance for doubtful accounts, affiliate station compensation and other expenses.
- *Corporate expenses.* Corporate expenses are related to the operations of our corporate offices and matters. These expenses include compensation and benefits for our corporate employees, professional fees, insurance, corporate facilities expenses and other expenses.

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

## Comparison Analysis of the Operating Results for the Three-Months Ended 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 rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to redeem or repurchase the Series B preferred stock and its accumulated unpaid dividends. If we are successful in refinancing our Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B preferred stock, to extent of the funds legally available.

Our strategy is to primarily utilize cash flows from operations to meet our ordinary course operating obligations. Management continually projects anticipated cash requirements and believes that cash from operating activities, together with cash on hand, should be sufficient to permit us to meet our ordinary course operating obligations over the next twelve-month period. Cash from operating activities will not be sufficient to repay the Notes or to redeem the Series B preferred stock.

Assumptions which underlie management’s beliefs with respect to operating activities include the following:

- the demand for advertising within the broadcasting industry and economic conditions in general will not deteriorate in any material respect;
- despite the consequences resulting from the occurrence of the Voting Rights Triggering Event, we will continue to successfully implement our business strategy; other than with respect to acquisitions and investments requiring proceeds from debt financings;
- we will use cash flows from operating activities to fund our operations and pay our expenses (including interest on the Notes), but not to repay the Notes or redeem the Series B preferred stock; and
- we will not incur any material unforeseen liabilities, including but not limited to taxes, environmental liabilities, regulatory matters or legal judgments.

We cannot assure you that these assumptions will be realized.

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

### ***12.5% Senior Secured Notes***

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

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

On October 28, 2003, our Board of Directors approved the issuance of 280,000 shares of 10 <sup>3</sup>/<sub>4</sub>% Series B Cumulative Exchangeable Redeemable Preferred Stock, par value \$0.01 per share, with a liquidation preference of \$1,000 per share. Holders of the Series B preferred stock have customary voting rights and provisions. As of March 31, 2018, we had outstanding \$90.5 million of Series B preferred stock due to the liquidation preference and accrued dividends of \$77.5 million.

The Certificate of Designations entitles the holders of the Series B preferred stock to receive dividends when, and if, declared by the Board of Directors.

Holdes of the Series B preferred stock have customary protective provisions. The Certificate of Designations contains covenants that, among other things, limit our ability to: (i) pay dividends, purchase junior securities and make restricted investments 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.

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 9, 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 9, elsewhere in this Quarterly Report on Form 10-Q.

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

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

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

We are required to pay holders of Series C preferred stock dividends on parity with our Class A common stock and Class B common stock, and each other class or series of our capital stock created after December 23, 2004. The Series C preferred stock holders have the same voting rights and powers as our Class A common stock on an as-converted basis, subject to certain adjustments. The Certificate of Designations for the Series C preferred stock does not contain a voting rights triggering event provision like the one found in the Certificate of Designations for the Series B preferred stock. Each holder of Series C preferred stock (i) has preemptive rights to purchase its pro rata share of any equity securities we may offer, subject to certain conditions, and (ii) may, at their option, convert each share of Series C preferred stock into two (2) shares of Class A common stock, subject to certain adjustments.

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

On August 8, 2016 CBS Radio entered into a Stock Purchase Agreement with us, AAA Trust and Mr. Alarcón (the “Stock Purchase Agreement”) to sell and assign its rights related to its 380,000 shares of Series C preferred stock to the AAA Trust for \$3.8 million. AAA Trust is a Florida trust, of which Mr. Alarcón is the trustee. Mr. Alarcón is also the beneficial owner of all the shares of Series C preferred stock held in the AAA Trust. Pursuant to the Stock Purchase Agreement, CBS Radio agreed to assign the rights under the registration rights agreement and Stockholder Agreement to the AAA Trust, which now holds such registration rights. The parties closed on the Stock Purchase Agreement on August 18, 2016.

For more information regarding the Series C preferred stock, see Note 12 to the financial statements included in our Annual Report.

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

As of March 31, 2018, we had 4,216,991 shares of Class A common stock outstanding.

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

As of March 31, 2018, 2,340,353 shares of Class B common stock were outstanding, which have ten votes per share. Raúl Alarcón, our Chief Executive Officer and the Chairman of our Board of Directors, has voting control over all but 350 shares of the Class B common stock.



## Summary of Capital Resources

The following summary table presents a comparison of our capital resources for the 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.

### OTC Markets Notice

On April 3, 2018, we received written notice from the OTC advising us that the Annual Report and the OTCQB Certification for the year ended December 31, 2017 (the "OTCQB Certification") were due on April 2, 2018 but had not yet been provided to OTC. On April 27, 2018, we received a second notice reiterating the same. Under Section 2.2 of the OTCQB Standards, we received a 45 day cure period, or until May 17, 2018, to file the Annual Report on EDGAR and post the OTCQB Certification through the OTC website. The Company received an extension of the 45 day cure period, from the OTC, until May 31, 2018 to file its Annual Report and until June 30, 2018 to post its OTCQB Certification. If we do not post the OTCQB Certification by June 30, 2018, our Class A Common Stock that is currently listed on the OTCQB Venture Market will be downgraded to OTC Pink. We currently intend to post the OTCQB Certification as soon as reasonably practicable and, in any case, prior to June 30, 2018, to maintain our listing on the OTCQB Venture Market.

### Off-Balance Sheet Arrangements

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

## Recently Issued Accounting Pronouncements

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

## Critical Accounting Policies

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

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

Our critical accounting policies are described in Item 7 of our Annual Report. There have been no material changes to our critical accounting policies during the 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 required to provide the information contained in this item pursuant to Regulation S-K.

## Item 4. *Controls and Procedures*

*Evaluation Of Disclosure Controls And Procedures.* Our management, including our principal executive and financial officers, have conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Exchange Act, to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our principal executive and financial officers concluded, as a result of the material weakness in internal control over financial reporting discussed below, that our disclosure controls and procedures were not effective as of the end of the period covered by this report. However, we believe that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

In March 2018, management concluded that a control deficiency in the process of detecting ownership changes related to Section 382 of the Internal Revenue Code, which impacts the calculation of the provision for income taxes and the measurement of our deferred tax assets constituted a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Since such time, management is implementing the following measure to remediate the material weakness related to the process of detecting ownership changes in accordance with Section 382. Management is implementing a quarterly review process that is performed in collaboration with outside legal counsel and third party tax specialists, where changes in ownership that have occurred since the prior period are considered and analyzed to determine if these represent ownership changes in accordance with Section 382. The conclusion as to whether or not an ownership change under Section 382 has occurred is further reviewed and approved by management. If we determine that an ownership change has occurred, we will conduct an analysis in accordance with such section to determine the impact to the calculation of the provision for income taxes and the measurement of our deferred tax assets. Management continues to explore additional measures to detect ownership changes under Section 382.

Based on our assessment, we consider that the material weakness related to the process of detecting ownership changes related to Section 382 has not been fully remediated and is still present as of March 31, 2018 as the remedial measures have not operated effectively for a sufficient period of time for management to conclude, through testing, that the applicable controls have operated effectively for a sufficient period of time.

*Changes In Internal Control Over Financial Reporting.* In November 2017, management concluded that a control deficiency with respect to the design of controls related to the classification and presentation of transactions on the Consolidated Statement of Cash Flows constituted a material weakness in internal control over financial reporting and that our disclosure controls and procedures were not and would not be deemed effective until such time that the deficiency was considered remediated.

Management has since implemented the following remedial measures to improve the review process to ensure that all transactions, including non-ordinary transactions are properly classified and presented on the Consolidated Statement of Cash Flows.

1. The Company has engaged an independent third party to assist with the preparation and provide additional guidance to the preparer of the Consolidated Statement of Cash Flows.
2. The Company has assigned additional managerial resources to perform a final review of the Consolidated Statement of Cash Flows.
3. The Company has developed a checklist to more clearly identify the specific review procedures performed by management's final review.

The combination of engaging an independent third party to assist and provide additional guidance, assigning additional managerial resources to the review process, and the creation and utilization of a checklist as part of the review have strengthened the Company's documentation process and resulting in an improved evaluation of the Consolidated Statement of Cash Flows.

Based on our assessment, management concluded that the material weakness related to the classification and presentation of transactions on the Consolidated Statement of Cash Flows has been remediated as of March 31, 2018, as the implemented remedial controls have been operating effectively for a sufficient period of time.

As previously discussed, management revised its policies and procedures with respect to controls over the process of detecting ownership changes related to Sections 382. Except for the material weaknesses we identified and the remedial measures we have implemented, as described above, there has been no change in our internal control over financial reporting during the quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

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

For a description of our legal proceedings, see Note 6, Commitments and Contingencies, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

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

For a description of defaults upon senior securities, see Note 8, 12.5% Senior Secured Notes, of the Notes to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

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

<b>Exhibit Number</b>	<b>Exhibit Description</b>
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