

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

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)

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	SBSAA	OTCQB Venture Market

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 every Interactive Data File required to be submitted 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 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 checked="" type="checkbox"/>	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 November 7, 2019, 4,241,991 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.

SPANISH BROADCASTING SYSTEM, INC.

INDEX

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
<u>ITEM 1. Financial Statements - Unaudited</u>	4
<u>Condensed Consolidated Financial Statements—Unaudited</u>	4
<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>ITEM 4. Controls and Procedures</u>	37
PART II. OTHER INFORMATION	
<u>ITEM 1. Legal Proceedings</u>	37
<u>ITEM 3. Defaults Upon Senior Securities</u>	37
<u>ITEM 6. Exhibits</u>	38
<u>SIGNATURES</u>	39

Special Note Regarding Forward-Looking Statements

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements—Unaudited

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except share data)

Assets	September 30, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	\$ 18,924	\$ 22,468
Receivables:		
Trade	32,331	32,769
Barter	205	431
	32,536	33,200
Less allowance for doubtful accounts	949	1,649
Net receivables	31,587	31,551
Prepaid expenses and other current assets	4,444	7,480
Total current assets	54,955	61,499
Property and equipment, net of accumulated depreciation of \$62,268 in 2019 and \$60,446 in 2018	23,209	22,414
FCC broadcasting licenses	321,714	321,714
Goodwill	32,806	32,806
Other intangible assets, net of accumulated amortization of \$1,308 in 2018	—	1,239
Operating lease right-of-use assets	16,859	—
Other assets	5,633	4,640
Total assets	\$ 455,176	\$ 444,312
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,260	\$ 20,370
Accrued interest	1,513	1,513
Unearned revenue	774	798
Other liabilities	—	9
Operating lease liabilities	1,163	—
12.5% senior secured notes (note 10)	249,864	249,864
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 September 30, 2019 and December 31, 2018 and \$92,067 and \$84,766 of dividends payable as of September 30, 2019 and December 31, 2018, respectively (note 11)	182,616	175,315
Total current liabilities	454,190	447,869
Other liabilities, less current portion	2,701	3,598
Operating lease liabilities - net of current portion	15,958	—
Deferred tax liabilities	67,743	72,224
Total liabilities	540,592	523,691
Commitments and contingencies (note 8)		
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 September 30, 2019 and December 31, 2018	4	4
Class A common stock, \$0.0001 par value. Authorized 100,000,000 shares; 4,241,991 shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Class B common stock, \$0.0001 par value. Authorized 50,000,000 shares; 2,340,353 shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Additional paid-in capital	526,200	526,191
Accumulated deficit	(611,620)	(605,574)
Total stockholders' deficit	(85,416)	(79,379)
Total liabilities and stockholders' deficit	\$ 455,176	\$ 444,312

See accompanying notes to the unaudited condensed consolidated financial statements.

SPANISH BROADCASTING SYSTEM, INC. AND SUBSIDIARIES

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

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2019	2018	2019	2018
Net revenue	\$ 36,261	\$ 34,038	\$ 110,547	\$ 102,724
Operating expenses:				
Engineering and programming	7,270	6,368	21,357	19,425
Selling, general and administrative	15,344	14,444	49,508	42,458
Corporate expenses	2,961	2,132	8,510	8,175
Depreciation and amortization	899	910	2,671	2,906
Total operating expenses	26,474	23,854	82,046	72,964
Loss (gain) loss on disposal of assets, net of disposal costs	131	(12,671)	92	(12,721)
Recapitalization costs	1,915	2,286	5,289	4,727
Executive severance expenses	—	—	1,844	—
Impairment charges	—	—	—	483
Other operating loss (income)	1	—	(16)	—
Operating income	7,740	20,569	21,292	37,271
Other expense:				
Interest expense, net	(7,807)	(7,748)	(23,419)	(24,013)
Dividends on Series B preferred stock classified as interest expense (note 11)	(2,434)	(2,434)	(7,301)	(7,301)
(Loss) income before income tax	(2,501)	10,387	(9,428)	5,957
Income tax (benefit) expense	(2,156)	1,722	(3,382)	2,659
Net (loss) income	\$ (345)	\$ 8,665	\$ (6,046)	\$ 3,298
Class A and B net income (loss) per common share (note 4)				
Basic	\$ (0.05)	\$ 1.18	\$ (0.82)	\$ 0.45
Diluted	\$ (0.05)	\$ 1.18	\$ (0.82)	\$ 0.45

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)

	Nine-Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net (loss) income	\$ (6,046)	\$ 3,298
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Dividends on Series B preferred stock classified as interest expense (note 11)	7,301	7,301
Loss (gain) on the disposal of assets, net of disposal costs	161	(12,541)
Gain on insurance proceeds received for damage to equipment	(69)	(180)
Impairment charges	—	483
Stock-based compensation	9	39
Depreciation and amortization	2,671	2,906
Net barter income	(716)	(86)
Provision for trade doubtful accounts	569	268
Deferred income taxes	(4,481)	961
Unearned revenue	471	192
Changes in operating assets and liabilities:		
Trade receivables	(844)	2,906
Prepaid expenses and other current assets	3,121	(1,809)
Other assets	(993)	(304)
Accounts payable and accrued expenses	(1,464)	473
Accrued interest	—	(304)
Other liabilities	148	164
Net cash (used in) provided by operating activities	<u>(162)</u>	<u>3,767</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,251)	(1,746)
Net payments towards FCC repack assets	(201)	—
Proceeds from the sale of property and equipment	1	12,950
Insurance proceeds received for damage to equipment	69	297
Net cash (used in) provided by investing activities	<u>(3,382)</u>	<u>11,501</u>
Cash flows from financing activities:		
Paydown of 12.5% senior secured notes	—	(10,410)
Net cash used in financing activities	—	(10,410)
Net (decrease) increase in cash and cash equivalents	<u>(3,544)</u>	<u>4,858</u>
Cash and cash equivalents at beginning of period	22,468	16,141
Cash and cash equivalents at end of period	<u>\$ 18,924</u>	<u>\$ 20,999</u>
Supplemental cash flows information:		
Interest paid	<u>\$ 23,434</u>	<u>\$ 24,336</u>
Income tax paid	<u>\$ 2,113</u>	<u>\$ 1,197</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 September 30, 2019 and December 31, 2018 and for the three- and nine-month periods ended September 30, 2019 and 2018 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. They do not include all information and notes required by U.S. GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements as of, and for the fiscal year ended December 31, 2018, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed by the Company on April 1, 2019 (the “Annual Report”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are all of a normal and recurring nature, necessary for a fair presentation of the results of the interim periods. Additionally, we evaluated subsequent events after the balance sheet date of September 30, 2019 through the financial statements issuance date. The results of operations for the nine-months ended September 30, 2019 are not necessarily indicative of the results for the entire year ending December 31, 2019, or for any other future interim or annual periods.

Our consolidated financial statements have been prepared assuming we will continue as a going-concern, and do not include any adjustments that might result if we were unable to do so, and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2019 and December 31, 2018, we had a working capital deficit due primarily to the classification of our 10¾% Series B Cumulative Exchangeable Redeemable Preferred Stock (the “Series B preferred stock”) as a current liability and the classification of our 12.5% Senior Secured Notes due 2017 (the “Notes”) as a current liability. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Because the holders of the Series B preferred stock are not creditors, they do not have rights of, or remedies available to, creditors. Delaware law does not recognize a right of preferred stockholders to force redemptions or repurchases where the corporation does not have funds legally available. Currently, we do not have sufficient funds legally available to be able to redeem or repurchase the Series B preferred stock and its accumulated unpaid dividends. If we are successful in repaying or refinancing our Notes, and are able to generate legally available funds under Delaware law, we may be required to pay all or a portion of the accumulated preferred dividends and redeem all or a portion of the Series B preferred stock, to the extent of the funds legally available. The Company is currently involved in litigation with some holders of the Series B preferred stock. See Note 8 elsewhere in these Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail regarding the Series B preferred stock litigation.

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

The Company has incurred \$1.9 million and \$5.3 million, respectively, for the three- and nine-months ended September 30, 2019 of recapitalization costs, primarily due to professional fees and costs directly related to our recapitalization efforts. Also included in these amounts are the legal and financial advisory fees incurred by the holders of the Notes.

The Company used \$0.2 million of net cash from operating activities during the nine-month period ended September 30, 2019, management has evaluated its cash requirements for the next twelve-month period after the date of the filing of this quarterly report on Form 10-Q and determined that it anticipates generating sufficient cash flows, together with cash on hand, to meet its obligations regarding ordinary course operating activities.

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

Changes in Accounting Policies – Leases

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

Recently Issued Accounting Pronouncements

In March 2019, the FASB issued ASU No. 2019-02, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials*. ASU 2019-02 helps organizations align their accounting for production costs for films and episodic content produced for television and streaming services. The standard addresses when an organization should assess films and license agreements for program material for impairment at the film-group level, revises presentation requirements; requires new disclosures about content that is either produced or licensed; and, addresses cash flow classification for license agreements. The standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect the update will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, which provides additional guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently evaluating the effect the update will have on its financial statements.

In August 2018, the FASB issued ASU No. 2018-13 *Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements to all entities required to make disclosures about recurring and nonrecurring fair value measurements. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. The guidance eliminates the requirement to disclose the valuation process for Level 3 fair value measurements. The methodology used to arrive at the fair value of the Series B preferred stock results in a Level 3 classification. The Company has not currently adopted this ASU, however, the new guidance will not have an impact on our financial position or results of operations. Upon adoption, the Company will revise its disclosures in accordance with the requirements of this ASU.

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

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments* which introduces a new forward-looking approach, based on expected losses, to estimate credit losses on certain types of financial instruments, including trade receivables and held-to-maturity debt securities, which will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU also expands disclosure requirements and will be applied using the modified-retrospective approach. The update is effective for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. Early adoption is permitted as of the fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. The Company has not currently adopted this ASU. Based on our preliminary assessment, the Company does not expect the adoption of this update to have a material impact on our financial position, results of operations or cash flows.

2. Revenue

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized and reported reflects the consideration to which the Company expects to be entitled to receive in exchange for these services and entitled under the contract. Substantially all deferred revenue is recognized within twelve months of the payment date. To achieve this core principle, the Company applies the following five steps:

- 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- and nine-months ended September 30, 2019 and 2018 (in thousands):

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Local, national, digital and network	\$ 37,932	\$ 35,870	\$ 107,407	\$ 101,825
Special events	444	53	8,158	6,766
Barter	1,965	1,770	5,945	4,042
Other	1,329	1,594	4,484	5,068
Gross revenue	41,670	39,287	125,994	117,701
Less: Agency commissions and other	5,409	5,249	15,447	14,977
Net revenue	<u>\$ 36,261</u>	<u>\$ 34,038</u>	<u>\$ 110,547</u>	<u>\$ 102,724</u>

Nature of Products and Services

(a) Local, national, digital and network advertising

Local and digital revenues generally consist of advertising airtime sold in a station's local market, the Company's La Musica application or its 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. Network revenue generally consists of advertising airtime sold on the AIRE Radio Networks platform by network sales staff.

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

(b) Special events

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

In addition to ticket sales, the Company enters into profit-sharing arrangements to produce or co-produce live concerts and events with partners which may also purchase various production services from the company. These contracts include multiple promises that the Company evaluates to determine if the promises are separate performance obligations. Once the Company determines the performance obligations and the transaction price, including estimating the amount of variable consideration, the Company then allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method or using the variable consideration allocation exception if the required criteria are met. The corresponding revenues are recognized as the related performance obligations are satisfied, which may occur over time (i.e. term of agreement) or at a point in time (i.e. event completion). In order to determine if revenue should be reported gross as principal or net as agent, the Company considers indicators such as if it is the party primarily responsible for fulfillment, has inventory risk, and has discretion in establishing price to determine control. When management determines it controls an event, it is acting as the principal and records revenue gross. When management determines it does not control an event, it is acting as an agent and records revenue net.

(c) 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.

For the three-months ended September 30, 2019 and 2018, barter revenue of \$2.0 million and \$1.8 million, respectively, was offset by barter expense of \$1.8 million and \$1.9 million, respectively.

For the nine-months ended September 30, 2019 and 2018, barter revenue of \$5.9 million and \$4.0 million, respectively, was offset by barter expense of \$5.7 million and \$3.9 million, respectively.

(d) 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 842 - 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

During the three-months ended September 30, 2019 there were no local, national, digital and network revenue recognized that were included in the unearned revenue balances at the beginning of the period and \$0.3 million of local, national, digital and network revenue was recognized during the nine-months ended September 30, 2019, that was included in the unearned revenue balances at the beginning of the period. During the three-months ended September 30, 2019, there were no special events revenue recognized that were included in the unearned balances at the beginning of period and \$0.1 million of special events revenue recognized during the nine-months ended September 30, 2019 that were included in the unearned balances at the beginning of period. During the three-months ended September 30, 2019 barter revenue recognized that were included in the unearned revenue balances at the beginning of the period were not significant and \$0.4 million of barter revenue was recognized during the nine-months ended September 30, 2019, that was included in the unearned revenue balances at the beginning of the period. Other revenue recognized during the three- and nine-months ended September 30, 2019 that were included in unearned revenue balances at the beginning of the period were not significant. At September 30, 2019 there was \$1.4 million of variable consideration in the form of agency based volume discounts accrued as contract liabilities within accrued expenses as compared to \$1.0 million and \$2.1 million for the quarter-ended June 30, 2019 and the year-ended December 30, 2018, respectively. Variable consideration in the form of agency based volume discounts of \$0.4 million and \$1.3 million were recognized and recorded as contract liabilities within accrued expenses during the three- and nine-months ended September 30, 2019, respectively.

3. Leases

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

Certain rental agreements for office space and radio towers contain non-lease components such as common area maintenance and utilities. The Company elected to apply the practical expedient that permits lessees to make an accounting policy election to account for each separate lease component of an office space and radio tower lease contract and its associated non-lease components as a single lease component. Certain rental agreements for office space and radio towers also include taxes and insurance which are not considered lease components.

Consideration for office space and radio tower site leases generally includes fixed monthly payments. The lease term begins at the commencement date and is determined on that date based on the term of the lease, together with periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. When evaluating whether the Company is reasonably certain to exercise an option to renew the lease, the Company is required to assess all relevant factors that create an economic incentive for the Company to exercise the renewal.

The various discount rates are based on the Company's incremental borrowing rate due to the rate implicit in the leases being not readily determinable. The Company's incremental borrowing rate is the rate of interest that the Company would have to pay to

borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company used publicly available information about low-grade debt, adjusted for the effects of collateralization, to determine the various rates it would pay to finance transactions over similar time periods.

The Company elected to apply a package of practical expedients that allows it not to reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases, and (iii) initial direct costs for any expired or existing leases.

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

	Three-Months Ended September 30, 2019	Nine-Months Ended September 30, 2019
Operating lease cost	\$ 1,006	\$ 3,167
Sublease income	(387)	(1,460)
Total lease cost	<u>\$ 619</u>	<u>\$ 1,707</u>

Lease costs for the three- and nine-months ended September 30, 2018 include minimum rental payments under operating leases recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases during the three- and nine-months ended September 30, 2018 amounted to \$1.1 million and \$2.8 million, respectively.

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

	Nine-Months Ended September 30, 2019
Operating Leases:	
Operating lease right-of-use assets	\$ 16,859
Operating lease liabilities	1,163
Operating lease liabilities - net of current portion	15,958
Total operating lease liabilities	<u>\$ 17,121</u>
Other information	
Operating cash flows from operating leases	\$ 1,280
Right-of-use assets obtained in exchange for new lease liabilities	\$ 4,488
Weighted-average remaining lease term	11.4 years
Weighted average discount rate	12.7%

Future minimum lease payments under operating leases as of September 30, 2019 are as follows (in thousands):

Year ending December 31:	
2019 (excluding the nine-months ended September 30, 2019)	\$ 885
2020	3,067
2021	2,839
2022	2,820
2023	2,726
Thereafter	22,791
Total undiscounted lease payments	<u>\$ 35,128</u>
Less: imputed interest	18,007
Total lease liabilities	<u>\$ 17,121</u>

At December 31, 2018, future minimum lease payments under such leases are as follows (in thousands):

Year ending December 31:	
2019	\$ 3,766
2020	2,545
2021	2,280
2022	2,249
2023	2,113
Thereafter	15,554
Total minimum lease payments	<u>\$ 28,507</u>

As of September 30, 2019, the Company has entered into an additional operating lease that has not yet commenced of approximately \$5.8 million. The lease is expected to commence in 2019 and has a lease term of 15.5 years.

We have agreements to sublease our radio frequencies and portions of our tower sites and buildings. Such agreements provide for payments through 2024. Future minimum rental income to be received under these agreement as of September 30, 2019 is as follows:

Year ending December 31:	
2019 (excluding the nine-months ended September 30, 2019)	\$ 349
2020	939
2021	479
2022	354
2023	140
Thereafter	17
Total undiscounted lease payments	<u>\$ 2,278</u>

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

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

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

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

	Three-Months Ended September 30,					
	2019			2018		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net (loss) income per share:						
Numerator						
Allocation of undistributed (losses) earnings	\$ (199)	(110)	(36)	\$ 5,002	2,765	898
Denominator						
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,234	2,340	760
Basic net (loss) income per share	<u>\$ (0.05)</u>	<u>(0.05)</u>	<u>(0.05)</u>	<u>\$ 1.18</u>	<u>1.18</u>	<u>1.18</u>
Diluted net (loss) income per share:						
Numerator						
Allocation of undistributed (losses) earnings	\$ (199)	(110)	(36)	\$ 5,002	2,765	898
Denominator						
Number of shares used in basic computation	4,242	2,340	760	4,234	2,340	760
Weighted-average impact of dilutive equity instruments	—	—	—	9	—	—
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,243	2,340	760
Diluted net (loss) income per share	<u>\$ (0.05)</u>	<u>(0.05)</u>	<u>(0.05)</u>	<u>\$ 1.18</u>	<u>1.18</u>	<u>1.18</u>
Common stock equivalents excluded from calculation of diluted net (loss) income per share as the effect would have been anti-dilutive:						
	445	—	—	380	—	—
	Nine-Months Ended September 30,					
	2019			2018		
	Class A	Class B	Series C	Class A	Class B	Series C
Basic net (loss) income per share:						
Numerator						
Allocation of undistributed (losses) earnings	\$(3,493)	\$(1,927)	\$(626)	\$ 1,901	\$ 1,055	\$ 342
Denominator						
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,217	2,340	760
Basic net (loss) income per share	<u>\$ (0.82)</u>	<u>\$ (0.82)</u>	<u>\$ (0.82)</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>
Diluted net (loss) income per share:						
Numerator						
Allocation of undistributed (losses) earnings	\$(3,493)	\$(1,927)	\$(626)	\$ 1,901	\$ 1,055	\$ 342
Denominator						
Number of shares used in basic computation	4,242	2,340	760	4,217	2,340	760
Weighted-average impact of dilutive equity instruments	—	—	—	—	—	—
Number of shares used in per share computation (as converted)	4,242	2,340	760	4,217	2,340	760
Diluted net (loss) income per share	<u>\$ (0.82)</u>	<u>\$ (0.82)</u>	<u>\$ (0.82)</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>
Common stock equivalents excluded from calculation of diluted net (loss) income per share as the effect would have been anti-dilutive:						
	445	—	—	380	—	—

5. Stockholders' Deficit

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

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2019	2018	2019	2018
Beginning balance	\$ (85,073)	\$ (101,248)	\$ (79,379)	\$ (95,914)
Net income (loss)	(345)	8,665	(6,046)	3,298
Stock-based compensation	2	6	9	39
Ending balance	<u>\$ (85,416)</u>	<u>\$ (92,577)</u>	<u>\$ (85,416)</u>	<u>\$ (92,577)</u>

6. Operating Segments

We have two reportable segments: radio and television.

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

	Three-Months Ended September 30,		Nine-Months Ended September 30,	
	2019	2018	2019	2018
Net revenue:				
Radio	\$ 32,493	\$ 30,255	\$ 99,564	\$ 90,785
Television	3,768	3,783	10,983	11,939
Consolidated	<u>\$ 36,261</u>	<u>\$ 34,038</u>	<u>\$ 110,547</u>	<u>\$ 102,724</u>
Engineering and programming expenses:				
Radio	\$ 5,688	\$ 5,303	\$ 16,370	\$ 16,016
Television	1,582	1,065	4,987	3,409
Consolidated	<u>\$ 7,270</u>	<u>\$ 6,368</u>	<u>\$ 21,357</u>	<u>\$ 19,425</u>
Selling, general and administrative expenses:				
Radio	\$ 13,778	\$ 13,191	\$ 44,621	\$ 37,228
Television	1,566	1,253	4,887	5,230
Consolidated	<u>\$ 15,344</u>	<u>\$ 14,444</u>	<u>\$ 49,508</u>	<u>\$ 42,458</u>
Corporate expenses:				
	<u>\$ 2,961</u>	<u>\$ 2,132</u>	<u>\$ 8,510</u>	<u>\$ 8,175</u>
Depreciation and amortization:				
Radio	\$ 400	\$ 420	\$ 1,174	\$ 1,256
Television	447	432	1,341	1,473
Corporate	52	58	156	177
Consolidated	<u>\$ 899</u>	<u>\$ 910</u>	<u>\$ 2,671</u>	<u>\$ 2,906</u>
Loss (gain) on disposal of assets, net of disposal costs:				
Radio	\$ (7)	\$ (159)	\$ (46)	\$ (171)
Television	138	29	138	(9)
Corporate	—	(12,541)	—	(12,541)
Consolidated	<u>\$ 131</u>	<u>\$ (12,671)</u>	<u>\$ 92</u>	<u>\$ (12,721)</u>
Recapitalization costs:				
Radio	\$ —	\$ —	\$ —	\$ —
Television	—	—	—	—
Corporate	1,915	2,286	5,289	4,727
Consolidated	<u>\$ 1,915</u>	<u>\$ 2,286</u>	<u>\$ 5,289</u>	<u>\$ 4,727</u>
Executive severance expenses				
Radio	\$ —	\$ —	\$ —	\$ —
Television	—	—	—	—
Corporate	—	—	1,844	—
Consolidated	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,844</u>	<u>\$ —</u>
Impairment charges:				
Radio	\$ —	\$ —	\$ —	\$ —
Television	—	—	—	483
Corporate	—	—	—	—
Consolidated	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 483</u>
Other operating loss (income):				
Radio	\$ 1	\$ —	\$ (16)	\$ —
Television	—	—	—	—
Corporate	—	—	—	—
Consolidated	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ (16)</u>	<u>\$ —</u>
Operating income:				
Radio	\$ 12,633	\$ 11,500	\$ 37,461	\$ 36,456
Television	35	1,004	(370)	1,353
Corporate	(4,928)	8,065	(15,799)	(538)
Consolidated	<u>\$ 7,740</u>	<u>\$ 20,569</u>	<u>\$ 21,292</u>	<u>\$ 37,271</u>

	Three-Months Ended		Nine-Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Capital expenditures:				
Radio	\$ 802	\$ 588	\$ 1,828	\$ 1,461
Television	187	76	986	150
Corporate	136	101	437	135
Consolidated	<u>\$ 1,125</u>	<u>\$ 765</u>	<u>\$ 3,251</u>	<u>\$ 1,746</u>

	September 30,	December 31,
	2019	2018
Total Assets:		
Radio	\$ 396,261	\$ 386,303
Television	56,573	55,052
Corporate	2,342	2,957
Consolidated	<u>\$ 455,176</u>	<u>\$ 444,312</u>

7. Income Taxes

We are calculating our effective income tax rate using an estimated annual effective tax rate with the exception of jurisdictions where losses have a full valuation allowance against them and jurisdictions with indefinite lived deferred tax liabilities for which their deferred tax assets are also subject to a full valuation allowance. 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. During the third quarter 2019, the Company recorded an out of period adjustment releasing the valuation allowance related to our Florida NOL deferred tax asset. The \$0.5 million adjustment reduces our deferred tax liability through the release of the valuation allowance and increases our income tax benefit. We determined, through the review of quantitative and qualitative factors, that the adjustment was not material to the current or any prior periods. Due to the continued pre-tax operating losses reported through the third quarter of 2019, management has not changed its valuation allowance position as of September 30, 2019 from December 31, 2018.

Our income tax expense differs from the statutory federal tax rate of 21% and related statutory state tax rates primarily due to the winding down of tax amortization on certain indefinite-lived intangible assets that do not have any valuation allowance, offset by the deferred tax asset continued creation of 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 2015 through 2018. The tax years that remain subject to assessment of additional liabilities by the Puerto Rico tax authority are 2012 through 2018.

Based on our evaluation, we have concluded that there are no material uncertain tax positions requiring recognition in our consolidated financial statements as of September 30, 2019 and December 31, 2018.

8. 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 Charter regarding the foreign ownership issues described below. Specifically, it alleges that the Forbearance Agreement (which expired on May 31, 2017) and certain payments pursuant thereto were barred by the Certificate of Designations due to the existence of a “Voting Rights Triggering Event” under the Certificate of Designations because, among other things, the forbearance agreement allegedly constituted a “de facto” extension or refinancing of the Notes. The Preferred Holder Complaint alleges that SBS breached the Charter by suspending certain rights of the Series B preferred stockholders, and that Section 10.4 of the Charter is overbroad and thus invalid as a matter of Delaware law. The complaint requests relief including, among other things, an order interpreting and enforcing the Certificate of Designations, preventing us from making any additional payments on the Notes and requiring us to redeem the Series B preferred stock at face value plus accrued dividends (of approximately \$182.6 million as of September 30, 2019, 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. The Company filed a motion to dismiss these claims, for which oral argument was heard on April 12, 2018. The Company received a ruling on the motion to dismiss on August 27, 2018. The ruling granted our motion to dismiss in part and denied it in part. The court dismissed the claim for breach of the implied covenant of good faith and fair dealing and dismissed the claim for specific performance (insofar as it sought a redemption of the Series B preferred stock) and dismissed the claim for a declaratory judgment regarding the Charter (insofar as it sought a declaration that Section 10.4 of the Charter is invalid on the face). The other claims in the Preferred Holder Complaint were not dismissed and remain pending before the court. On June 3, 2019, we filed a motion for leave to file counterclaims (the “Counterclaims”) that seek, among other things, declarations confirming that the Prohibited Foreign Purchasers’ (as defined below) purported purchase of Series B preferred stock was invalid ab initio and of no effect. On July 12, 2019, the Prohibited Foreign Purchasers filed an opposition to our motion for leave to file the Counterclaims arguing that the Counterclaims depend on novel questions of federal law that the FCC should decide. On July 23, 2019, we filed a reply in support of our motion for leave to file the Counterclaims, arguing that that the Prohibited Foreign Purchasers’ opposition to the Counterclaims is frivolous because, under Delaware law, the only valid basis for denial of the Counterclaims would be either that our original motion was not timely, or that one of the parties would be unfairly prejudiced by the Counterclaims. Because the Prohibited Foreign Purchasers failed to raise either argument, we argued they waived them. On September 24, 2019 the Chancery Court granted our motion for leave to file the counterclaims. The Counterclaims were filed on October 1, 2019 and now deemed served, we await a response to our lawsuit from the counterdefendants. Given the uncertainties of litigation there can be no assurances that we will be successful nor can the Company conclude there are indicators of a probable loss. We believe these claims are without merit and intend to defend ourselves vigorously.

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 \$1.4 million 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 \$0.4 million, 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.

9. Fair Value Measurement Disclosures

(a) 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.

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	September 30, 2019		December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
12.5% Senior Secured Notes due 2017 (note 10)	Level 2	\$ 249.9	262.6	\$ 249.9	258.6
10 ³ / ₄ % Series B cumulative exchangeable redeemable preferred stock (note 11)	Level 3	182.6	51.9	175.3	37.8

10. 12.5% Senior Secured Notes due 2017

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 September 30, 2019, there was \$249.9 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.

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 June 30, 2019.

Collateral and Ranking

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

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

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

Covenants and Other Matters

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

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

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

11. 10³/₄% Series B Cumulative Exchangeable Redeemable Preferred Stock

Voting Rights Triggering Event

On October 30, 2003, we partially financed the purchase of a radio station with proceeds from the sale, through a private placement, of 75,000 shares of our 10³/₄% 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 10³/₄% 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.

Holders of the Series B preferred stock have customary protective provisions. The Certificate of Designations governing the Series B preferred stock (the “Certificate of Designations”) contains covenants that, among other things, limit our ability to: (i) pay dividends, purchase junior securities and make restricted investments or other restricted payments; (ii) incur indebtedness, including refinancing indebtedness; (iii) merge or consolidate with other companies or transfer all or substantially all of our assets; and (iv) engage in transactions with affiliates. Upon a change of control, we will be required to make an offer to purchase these shares at a price of 101% of the aggregate liquidation preference of these shares plus accumulated and unpaid dividends to, but excluding the purchase date.

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

On October 15, 2013, holders of shares of our Series B preferred stock requested that we repurchase 92,223 shares of Series B preferred stock for an aggregate repurchase price of \$126.9 million, which included accumulated and unpaid dividends on these shares as of October 15, 2013. We did not have sufficient funds legally available to repurchase all of the Series B preferred stock for which 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 8, Commitments and Contingencies.

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

Additionally, on November 13, 2017, the Company filed a notification with the FCC to apprise the FCC of the possible non-compliance with the Communications Act's limits on foreign ownership. On December 4, 2017, the Company also filed a petition with the FCC for declaratory ruling (the "Petition") with respect to the potential excess foreign ownership. The Company filed the Petition not because it had concluded that an affirmative FCC public interest ruling regarding recognized foreign ownership was required, but at the suggestion of FCC staff to ensure the Company had prophylactically availed itself of the "safe harbor" protections of Section 1.5004(f)(4) of the FCC's Rules, in the event such a declaratory ruling ultimately proved necessary. This suggestion came after the Company had previously notified the FCC of a possible Section 310(b) foreign ownership issue triggered by the filing of the Preferred Holder Complaint. The FCC responded to the Petition by sending a letter to the Company detailing the information the FCC would need regarding the identities and nature of the purported foreign ownership of the Series B preferred stock to make a determination regarding the Petition and establishing a deadline for the disclosure of that information. The purported Series B preferred stockholders were therefore required to provide to the Company sufficient information about the extent and nature of their foreign ownership to enable the Company to supplement the Petition with this additional information. On March 23, 2018, counsel for the purported holders of most of the Series B preferred stock filed a letter with the FCC supplying a significant portion of the information requested. The Company reviewed this information in order to determine whether it was complete, true and correct, as required by the FCC's rules, and requested some additional information from the Series B preferred stockholders. The purported Series B preferred stockholders did not provide any additional information regarding the timing of their alleged purchases of Series B preferred stock until December 5, 2018. On that date, such stockholders filed responses to the Company's interrogatories in the Series B Preferred Stock Litigation. These responses contained a significant portion of the pending information that was originally solicited on November 2017 and January 2018, respectively. The new information mainly consisted of the trading information in the Series B preferred stock, including dates of acquisition, the number of shares purportedly acquired in each transaction and, to the extent available, seller information. On December 6, 2018, the Company received a letter from the Enforcement Bureau of the Investigations and Hearings Division (the "Bureau") of the FCC advising the Company that it was under investigation for potential violations of Section 310(b) of the Communications Act related to excess foreign ownership of broadcast stations. As part of its investigation, the Bureau requested of the Company detailed information and supporting documentation about the identities of the Series B preferred stockholders, the potential for a foreign ownership violation, the dates that the Company became aware of the situation, and the steps it took to address the situation. The Company timely filed its response to the Bureau's letter of inquiry on February 8, 2019. As of the date of this filing, we have not received a response or any additional inquiries from the Bureau regarding this investigation.

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

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

On July 9, 2019, counsel to the Prohibited Foreign Purchasers sent a letter to the FCC requesting that it review the Company's equity as mandated by seminal FCC precedent and conclude that the holders of the Series B preferred stock, including the Prohibited Foreign Purchasers, did not and do not cause the Company to exceed the 25 percent foreign ownership benchmark. According to the letter, the Prohibited Foreign Purchasers disagree with the Company's calculations of its foreign equity ownership. The Company disagreed with the contents of this letter and on August 6, 2019 filed a timely response with the FCC detailing its objection to the Prohibited Foreign Purchasers position and again requesting that the FCC defer the issue to the pending Chancery Court proceeding. On August 26, 2019, counsel to the Prohibited Foreign Purchasers responded to our August 6 letter, largely reiterating their claims in the July 9 letter. The Company does not plan to respond to the August 26 letter and one is not required. As of the date of these financial statements, the FCC has not communicated with the Company regarding these letters.

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

Quarterly Dividends

Under the terms of our Series B preferred stock, the holders of the outstanding shares of the Series B preferred stock are entitled to receive, when, as and if declared by the Board of Directors out of funds of the Company legally available therefor, dividends on the Series B preferred stock at a rate of 10 ³/₄% 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 September 30, 2019, the aggregate cumulative unpaid dividends on the outstanding shares of the Series B preferred stock was approximately \$92.1 million, which is accrued on our condensed consolidated balance sheet as 10 ³/₄% Series B cumulative exchangeable redeemable preferred stock.

Accounting Treatment of the Preferred Stock

The Series B preferred stock will be measured at subsequent reporting dates at the amount of cash that would be paid under the conditions specified in the contract, as if the settlement occurred at the reporting date, recognizing the resulting change in that amount from the previous reporting date as interest expense. Therefore, the 10 ³/₄% accruing quarterly dividends will be recorded as interest expense (i.e. "Dividends on Series B preferred stock classified as interest expense") as required by ASC 480. For the three-months ended September 30, 2019 and 2018, we recorded \$2.4 million as dividends on Series B preferred stock classified as interest expense and \$7.3 million for the nine-months ended September 30, 2019 and 2018.

12. Retirement of Senior Executive Vice President and Chief Financial Officer

On May 31, 2019, the Company entered into a Separation Agreement (the "Separation Agreement") with our former Senior Executive Vice President and Chief Financial Officer ("SEVP/CFO"). Pursuant to the Separation Agreement, effective May 31, 2019 (the "Separation Date"), the former SEVP/CFO resigned as an officer and employee of the Company, but will continue to serve as a director of the Company.

Under the Separation Agreement, the former SEVP/CFO received his earned base salary and expenses through the Separation Date, plus \$1,750,000 in cash severance. The cash severance amount represents two times his base salary (that he was entitled to receive under his employment agreement with the Company plus an additional \$700,000, and the cash severance will be paid out over a 12 month period. The former SEVP/CFO's vested stock options will also remain exercisable following the Separation Date, until the expiration of the applicable option term. The former SEVP/CFO is also entitled to continue to participate in the Company's group health plan for six months following the Separation Date at the Company's expense. Thereafter, the former SEVP/CFO may elect COBRA continuation coverage (subject to eligibility and timely election). If he elects such coverage, the Company will pay him a cash lump sum amount equivalent to 18 months of monthly COBRA premiums for the coverage elected. For the nine-months ended September 30, 2019, we expensed \$1.8 million as executive severance expenses which includes severance pay, future benefits and other expenses. As of September 30, 2019, within accounts payable and accrued expenses, there is approximately \$1.2 million that remains accrued related to the executive severance expense.

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

General Overview

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

We own and operate radio stations located in six of the most populous Hispanic markets in the United States: Los Angeles, New York, Puerto Rico, Chicago, Miami and San Francisco. The Los Angeles and New York markets have the largest and second largest Hispanic populations and are also the largest and second largest radio markets in the United States measured by advertising revenue, respectively. We format the programming of each of our radio stations to capture a substantial share of the Hispanic audience in their 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 operate our AIRE Radio Networks with over 275 affiliate radio stations serving 87 of the top 100 U.S. Hispanic markets, including 47 of the top 50 Hispanic markets. AIRE Radio Networks currently covers 95% of the coveted U.S. Hispanic market. Our AIRE Radio Networks reach over 15 million listeners in an average week with our targeted networks. For the nine-months ended September 30, 2019 and 2018, our radio revenue was generated primarily from the sale of local, national, digital and network advertising, and our radio segment generated 90% and 88% 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 3.1 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 65 hours of original programming per week. For the nine-months ended September 30, 2019 and 2018, our television revenue was generated primarily from the sale of local and national advertising and paid programming, and our television segment generated 10% and 12% of our consolidated net revenues, respectively.

As part of our operating business, we also maintain multiple Spanish and bilingual websites, including www.lamusica.com, 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 improvements 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 8, 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 “Business—Our Continued Recapitalization and Restructuring Efforts” and “Item 7—Liquidity and Capital Resources” 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 and digital revenue generally consists of advertising airtime sold in a station's local market, as well as the sale of advertising airtime during the streaming of our radio stations, the LaMusica application and 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). For the nine-months ended September 30, 2019 and 2018, local and digital revenue comprised 68% and 69% of our gross revenues, respectively.
- National and network 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. Network sales consist of advertising airtime sold on our AIRE Radio Network platform by our network sales staff. For the nine-months ended September 30, 2019 and 2018, national and network revenue comprised 17% and 18% 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 nine-months ended September 30, 2019 and 2018, barter revenue comprised 5% and 3% of our gross revenues, respectively.
- *Special events revenue.* We generate special events revenue from ticket sales, as well as profit-sharing arrangements by producing or co-producing live concerts and events promoted by our radio and television stations. For each of the nine-months ended September 30, 2019 and 2018, special events revenue comprised 6% of our gross revenues.
- *Other revenue.* We receive other ancillary revenue such as subscriber revenue paid to us by cable and satellite providers, rental income from renting available tower space or sub-channels and syndication revenue from licensing MegaTV content. For each of the nine-months ended September 30, 2019 and 2018, other revenue comprised 4% of our gross revenues.

Operating Expenses Description and Factors

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

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

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

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

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

	Three-Months Ended September 30,	
	2019	2018
Net revenue:		
Radio	\$ 32,493	\$ 30,255
Television	3,768	3,783
Consolidated	<u>\$ 36,261</u>	<u>\$ 34,038</u>
Engineering and programming expenses:		
Radio	\$ 5,688	\$ 5,303
Television	1,582	1,065
Consolidated	<u>\$ 7,270</u>	<u>\$ 6,368</u>
Selling, general and administrative expenses:		
Radio	\$ 13,778	\$ 13,191
Television	1,566	1,253
Consolidated	<u>\$ 15,344</u>	<u>\$ 14,444</u>
Corporate expenses:		
	<u>\$ 2,961</u>	<u>\$ 2,132</u>
Depreciation and amortization:		
Radio	\$ 400	\$ 420
Television	447	432
Corporate	52	58
Consolidated	<u>\$ 899</u>	<u>\$ 910</u>
Loss (gain) on disposal of assets, net of disposal costs:		
Radio	\$ (7)	\$ (159)
Television	138	29
Corporate	—	(12,541)
Consolidated	<u>\$ 131</u>	<u>\$ (12,671)</u>
Recapitalization costs:		
Radio	\$ —	\$ —
Television	—	—
Corporate	1,915	2,286
Consolidated	<u>\$ 1,915</u>	<u>\$ 2,286</u>
Other operating loss:		
Radio	\$ 1	\$ —
Television	—	—
Corporate	—	—
Consolidated	<u>\$ 1</u>	<u>\$ —</u>
Operating income:		
Radio	\$ 12,633	\$ 11,500
Television	35	1,004
Corporate	(4,928)	8,065
Consolidated	<u>\$ 7,740</u>	<u>\$ 20,569</u>

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

	Three-Months Ended September 30,	
	2019	2018
Net revenue	\$ 36,261	\$ 34,038
Engineering and programming expenses	7,270	6,368
Selling, general and administrative expenses	15,344	14,444
Corporate expenses	2,961	2,132
Depreciation and amortization	899	910
Loss (gain) on disposal of assets, net of disposal costs	131	(12,671)
Recapitalization costs	1,915	2,286
Other operating loss	1	—
Operating income	<u>\$ 7,740</u>	<u>\$ 20,569</u>
Interest expense, net	(7,807)	(7,748)
Dividends on Series B preferred stock classified as interest expense	(2,434)	(2,434)
Income tax (benefit) expense	(2,156)	1,722
Net (loss) income	<u>\$ (345)</u>	<u>\$ 8,665</u>

Net Revenue

The increase in our consolidated net revenues of 7% was due to a net revenue increase in our radio segment while the television segment remained flat. Our radio segment net revenue increased \$2.2 million or 7% due to increases in local, digital sales, special events revenue, network and barter sales which were partially offset by decreases in national sales. Our television segment net revenue remained flat, due to the increases in local sales, which were offset by decreases in national sales and hurricane related insurance proceeds for business interruption in Puerto Rico.

Engineering and Programming Expenses

The increase in our consolidated engineering and programming expenses of \$0.9 million or 14% was due to an increase in both our television and radio segments expenses. Our television segment expenses increased \$0.5 million or 49%, mainly due to an increase in original produced content production costs. The radio segment expenses increased \$0.4 million or 7% primarily due to increases in compensation, including bonuses, and transmitter related expenses.

Selling, General and Administrative Expenses

The increase in our consolidated selling, general and administrative expenses of \$0.9 million or approximately 6% was due to expense increases in both our radio and television segments. Our radio segment expenses increased approximately \$0.6 million or 4%, mainly due to increases in special events expenses, which were partially offset by decreases in barter and advertising expenses. Our television segment expenses increased \$0.3 million or 25%, primarily due to increases in barter expenses.

Corporate Expenses

The increase in corporate expenses of \$0.8 million or 39% was mostly due to an increase in bonus compensation.

Loss (Gain) on Sale of Assets, net of disposal costs

The decrease in gain on sale of assets of \$12.8 million was primarily related to the prior year sale of our New York facility in July 2018.

Recapitalization Costs

The Company incurred \$1.9 million of recapitalization costs, a decrease of \$0.4 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. We incurred these costs primarily in connection with our continuing efforts to successfully recapitalize or restructure our balance sheet. Also included in these amounts are the legal and financial advisory fees paid to the ad hoc group of holders (the “Supporting Holders”) of more than 56% of the principal amount of outstanding Notes who previously entered into a forbearance agreement with us on May 8, 2017. See “Liquidity and Capital Resources—12.5% Senior Secured Notes.”

Operating Income

The decrease in operating income of \$12.8 million or 62% was primarily due to the prior year recognition of gain on sale of assets.

Interest Expense, net

The increase in interest expense of \$0.1 million or 1% was primarily due to recognizing a reduction of interest associated with the settlement of a state tax assessment in the prior year.

Income Tax (Benefit) Expense

The income tax benefit of \$2.2 million was primarily a result of a reduction of the deferred tax liabilities due to the continued generation of an indefinite lived deferred tax asset related to interest disallowance and the winding down of tax amortization on indefinite lived intangibles and the adjustment relating to the release of the valuation allowance on the Florida NOL deferred tax asset.

Net (Loss) Income

The net loss was primarily due to the decrease in operating income partially offset by the increase in income tax benefit.

Comparison Analysis of the Operating Results for the Nine-Months Ended September 30, 2019 and 2018

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

	Nine-Months Ended September 30,	
	2019	2018
Net revenue:		
Radio	\$ 99,564	\$ 90,785
Television	10,983	11,939
Consolidated	<u>\$ 110,547</u>	<u>\$ 102,724</u>
Engineering and programming expenses:		
Radio	\$ 16,370	\$ 16,016
Television	4,987	3,409
Consolidated	<u>\$ 21,357</u>	<u>\$ 19,425</u>
Selling, general and administrative expenses:		
Radio	\$ 44,621	\$ 37,228
Television	4,887	5,230
Consolidated	<u>\$ 49,508</u>	<u>\$ 42,458</u>
Corporate expenses:	<u>\$ 8,510</u>	<u>\$ 8,175</u>
Depreciation and amortization:		
Radio	\$ 1,174	\$ 1,256
Television	1,341	1,473
Corporate	156	177
Consolidated	<u>\$ 2,671</u>	<u>\$ 2,906</u>
Loss (gain) on the disposal of assets, net of disposal costs:		
Radio	\$ (46)	\$ (171)
Television	138	(9)
Corporate	—	(12,541)
Consolidated	<u>\$ 92</u>	<u>\$ (12,721)</u>
Recapitalization costs:		
Radio	\$ —	\$ —
Television	—	—
Corporate	5,289	4,727
Consolidated	<u>\$ 5,289</u>	<u>\$ 4,727</u>
Executive severance expenses		
Radio	\$ —	\$ —
Television	—	—
Corporate	1,844	—
Consolidated	<u>\$ 1,844</u>	<u>\$ —</u>
Impairment charges:		
Radio	\$ —	\$ —
Television	—	483
Corporate	—	—
Consolidated	<u>\$ —</u>	<u>\$ 483</u>
Other operating income:		
Radio	\$ (16)	\$ —
Television	—	—
Corporate	—	—
Consolidated	<u>\$ (16)</u>	<u>\$ —</u>
Operating income:		
Radio	\$ 37,461	\$ 36,456
Television	(370)	1,353
Corporate	(15,799)	(538)
Consolidated	<u>\$ 21,292</u>	<u>\$ 37,271</u>

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

	Nine-Months Ended September 30,	
	2019	2018
Net revenue	\$ 110,547	\$ 102,724
Engineering and programming expenses	21,357	19,425
Selling, general and administrative expenses	49,508	42,458
Corporate expenses	8,510	8,175
Depreciation and amortization	2,671	2,906
Loss (gain) on disposal of assets, net of disposal costs	92	(12,721)
Recapitalization costs	5,289	4,727
Executive severance expenses	1,844	—
Impairment charges	—	483
Other operating income	(16)	—
Operating income	\$ 21,292	\$ 37,271
Interest expense, net	(23,419)	(24,013)
Dividends on Series B preferred stock classified as interest expense	(7,301)	(7,301)
Income tax (benefit) expense	(3,382)	2,659
Net (loss) income	\$ (6,046)	\$ 3,298

Net Revenue

The increase in our consolidated net revenues of \$7.8 million or 8% was due to a net revenue increase in our radio segment partially offset by a decrease in our television segment. Our radio segment net revenue increased \$8.8 million or 10% due to increases in special events revenue and local, barter, network, and digital sales. Our television segment net revenue decreased by \$1.0 million or 8%, due to decreases in special events revenue, subscriber fees and hurricane related insurance proceeds from business interruption in Puerto Rico which were offset by increases in local and barter sales.

Engineering and Programming Expenses

The increase in our consolidated engineering and programming expenses of \$1.9 million or 10% was due to an increase in both our television and radio segments expenses. The television segment expenses increased \$1.6 million or 46% primarily due to an increase in originally produced programming content costs, partially offset by an increase in programming tax credits. Our radio segment expenses increased \$0.3 million or 2%, mainly due to increases in compensation and bonuses partially offset by a decrease in office and equipment expense and an increase in programming tax credits.

Selling, General and Administrative Expenses

The increase in our consolidated selling, general and administrative expenses of approximately \$7.1 million or 17% was due to an expense increase in our radio segment and a decrease in our television segment. Our radio segment expenses increased approximately \$7.4 million or 20%, mainly due to the absence of a prior year positive impact of legal settlements in addition to increases in special events, barter, compensation, commissions, advertising, allowance for doubtful accounts and facilities expenses which were partially offset by decreases in professional fees and promotions expenses. Our television segment expenses decreased \$0.3 million or 7%, primarily due to decreases in special events expenses offset by increases in barter, commissions and facility expenses.

Corporate Expenses

The increase in corporate expenses of \$0.3 million or 4% was mostly due an increase in compensation, insurance and travel related expenses partially offset by a decrease in professional fees.

Loss (Gain) on Sale of Assets, net of disposal costs

The decrease in gain on sale of assets of \$12.8 million was primarily related to the prior year sale of our New York facility in July 2018.

Recapitalization Costs

The Company incurred \$5.3 million of recapitalization costs, an increase of \$0.6 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. We incurred these costs primarily in connection with our continuing efforts to successfully recapitalize or restructure our balance sheet. Also included in these amounts are the legal and financial advisory fees paid to the ad hoc group of holders (the “Supporting Holders”) of more than 56% of the principal amount of outstanding Notes who previously entered into a forbearance agreement with us on May 8, 2017. See “Liquidity and Capital Resources—12.5% Senior Secured Notes.”

Executive Severance Expenses

The Company incurred \$1.8 million of executive severance expenses, during the second quarter of 2019, in connection with the retirement and separation agreement with our former SEVP/CFO.

Impairment Charges

The decrease in impairment charges of \$0.5 million was primarily due to the impairment of our Puerto Rico market television FCC broadcasting license in the prior year.

Operating Income

The decrease in operating income of \$16.0 million or 43% was primarily due to the prior year recognition of gain on sale of assets and the current year increases in operating expenses, executive severance expenses and recapitalization costs partially offset by an increase in net revenue and not recognizing an impairment charge in the current period.

Interest Expense, net

The decrease in interest expense of \$0.6 million or 2% was primarily due to the decreased amount of monthly interest payments based on a lower principal amount due on the 12.5% Senior Secured Notes.

Income Tax (Benefit) Expense

The income tax benefit of \$3.4 million was primarily a result of a reduction of the deferred tax liabilities due to the continued generation of an indefinite lived deferred tax asset related to interest disallowance and the winding down of tax amortization on indefinite lived intangibles and the adjustment relating to the release of the valuation allowance on the Florida NOL deferred tax asset.

Net (Loss) Income

Net loss was primarily due to the decrease in operating income partially offset by the increase in income tax benefit.

Liquidity and Capital Resources

The most important aspects of our liquidity and capital resources as of September 30, 2019 and, as of the date of this Quarterly Report on Form 10-Q, are as follows:

- On April 17, 2017, our 12.5% Senior Secured Notes, which totaled \$275.0 million, were payable and due. Because we did not have sufficient cash on hand and did not generate sufficient cash from operations we did not repay the Notes at their maturity. Subsequent to maturity, we used \$25.1 million of proceeds from asset sales and the FCC spectrum auction to partially pay down the Notes. Our current outstanding balance on the Notes is \$249.9 million.

- Certain holders of our Series B preferred stock, of which there is approximately \$182.6 million outstanding (comprised of approximately \$90.5 million in liquidation preference and approximately \$92.1 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 Note 8. Commitments and Contingencies in the Notes to the financial statements contained in this Quarterly report on Form 10-Q and under the heading “Our Continued Recapitalization and Restructuring Efforts” in our Annual Report.
- Our current sources of liquidity are our cash and cash equivalents. The Company reinvested \$3.2 million of net cash into the operations through increased capital expenditures during the nine-months ended September 30, 2019 which reduced our current cash and cash equivalents during the period. Based on current estimates and assumptions, we expect to generate a sufficient amount of cash flow from operations, during 2019, to meet our ordinary course operating obligations over the next twelve month period.
- We had a working capital deficit of \$399.2 million, primarily due to the classification of our Notes and Series B preferred stock as current liabilities. Under Delaware law, our state of incorporation, the Series B preferred stock is deemed equity. Excluding the Series B preferred stock of \$182.6 million, our adjusted working capital deficit totals \$216.6 million.

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;” 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 8, 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. Furthermore, as of September 30, 2019 and December 31, 2018, 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 the 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.

Although the Company expects to maintain cash on hand sufficient to meet its operating obligations, its inability to obtain financing in adequate amounts and on acceptable terms necessary to operate our business, repay our Notes and redeem or refinance our Series B preferred stock, obtain a favorable resolution to the Series B preferred stock litigation, or finance future acquisitions, negatively impacts our business, financial condition, results of operations and cash flows and raises substantial doubt about our ability to continue as a going concern.

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

12.5% Senior Secured Notes due 2017

As of September 30, 2019, we had outstanding \$249.9 million principal amount of our Notes and as a result of our failure to pay the Notes at maturity, an event of default of the covenant to repay the Notes under the Indenture has occurred and is continuing. However, we continue to pay interest on the Notes at their current rate of 12.5% per year on a monthly basis. See Note 1 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional detail regarding our recapitalization efforts and our failure to repay the Notes at maturity.

Series B Preferred Stock

On October 28, 2003, our Board of Directors approved the issuance of 280,000 shares of 10 ¾% 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 September 30, 2019, we had outstanding approximately \$90.5 million of Series B preferred stock due to the liquidation preference and accrued dividends of approximately \$92.1 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 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.

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 11, 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 11, elsewhere in this Quarterly Report on Form 10-Q.

Series C Preferred Stock

We are required to pay holders of Series C convertible preferred stock, \$0.01 par value per share (the “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. Each share of Series C preferred stock is convertible at the option of the holder into two fully paid and non-assessable shares of the Class A common stock. 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.

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

Class A Common Stock

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

Class B Common Stock

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

Summary of Capital Resources

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

	Nine-Months Ended		Change
	September 30,		
	2019	2018	\$
Capital expenditures:			
Radio	\$ 1,828	\$ 1,461	367
Television	986	150	836
Corporate	437	135	302
Consolidated	<u>\$ 3,251</u>	<u>\$ 1,746</u>	<u>1,505</u>
Net cash flows (used in) provided by operating activities	\$ (162)	\$ 3,767	(3,929)
Net cash flows (used in) provided by investing activities	(3,382)	11,501	(14,883)
Net cash flows used in financing activities	—	(10,410)	10,410
Net (decrease) increase in cash and cash equivalents	<u>\$ (3,544)</u>	<u>\$ 4,858</u>	

Capital Expenditures

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

Net Cash Flows (Used In) Provided by Operating Activities

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

Net Cash Flows (Used In) Provided by Investing Activities

Changes in our net cash used in investing activities were primarily a result of re-investing in our operations through increased capital expenditures in the current year and having sold our New York real estate assets in July 2018.

Net Cash Flows Used In Financing Activities

Changes in our net cash used in financing activities were primarily a result of providing a partial pay down of the principal related to the Notes in July 2018 from the proceeds received from the sale of our New York real estate assets.

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 nine-months ended September 30, 2019.

Changes in Accounting Policies – Leases

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 3. Defaults Upon Senior Securities

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

Item 6. Exhibits

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

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

SIGNATURES

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

SPANISH BROADCASTING SYSTEM, INC.

By: /s/ JOSÉ I. MOLINA _____

José I. Molina

Chief Financial Officer

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

Date: November 14, 2019